4.30 OPERATIONS/FINANCIAL COMMENTS (FI)

CONTENTS

FINANCIAL MODEL ASSUMPTIONS

Assumptions Concerning Revenues

FI-1. ***The Financial Model as an Indicator of Self-Sufficiency***

One commentor, in the business of residential real estate management, notes that the Trust's financial model should reflect the assumption that residential rent levels could decrease in the future, making the goal of reaching self-sufficiency more difficult. The commentor notes that it cannot be assumed (as many commentors do) that "the Trust will be able to readily exceed the financial point of self-sufficiency in the year 2013. Assuming easy access to capital and the kinds of markets that existed a scant year ago this might be true." But, the commentor points out, with the current downturn in the market, current residential rent levels have not fallen as low as they will fall and "the residential component with which we are involved will be affected along with virtually all the other … market rate properties in the Bay Area."

Response FI-1 – The Trust acknowledges, as this commentor points out, that the goal of achieving financial self-sufficiency and ensuring the Presidio's long-term financial sustainability is both difficult to attain and far more complex than the PTMP financial planning model reflects. It is important to understand, at the outset, that the financial model developed by the Trust's economic consultant, Sedway Group, and used to evaluate the PTMP planning alternatives was designed for a single purpose – to compare general land use alternatives. It compares each alternative's financial implications by using reasonable assumptions based on the best available information, keeping as many assumptions as possible constant across all alternatives in order to make the comparison among alternatives meaningful. The model provides an estimate of the revenue-generating potential of the different PTMP land use scenarios and thus is able to predict the amount of time required to complete the capital program under all alternatives. The model is not designed to predict long-term Trust operating costs, actual revenues, what the market will do in terms of rents, future budgets, building-specific implementation decisions, planned future phasing of projects, or other future financial decisions of the Trust. For full discussion of the PTMP financial model, refer to Volume III of the Final EIS, Appendix K (Financial Analysis).

Because it was designed as a planning tool and not a budgeting or forecasting tool, the PTMP financial model does not answer all questions about the Presidio's financial future. Moreover, it does not depict inevitable business cycles (i.e., the financial model neither indicates economic booms or economic downturns in the future). Instead, the financial model is based on conservative revenue assumptions, intended to reflect neither the high nor low of business cycles. It is important to interpret the financial results in this light and understand what the financial model does not say about future cash flows and future implementation decisions. Specifically, the financial model was not designed to:

- *Forecast Actual Expected Cash Flows:* The financial results generated by the model should not be interpreted as forecasted cash flows for the Presidio. Too little of actual future financial conditions can be accurately predicted over the model's 30-year modeling horizon, and therefore one cannot rely on the PTMP model to forecast cash flows. In all likelihood, the actual financial performance of the final land use mix at the Presidio will be different from the modeled financial performance of the various PTMP land use alternatives. The Trust will rely on other tools and refined assumptions to forecast expected cash flows and make implementation decisions.

- *Reflect Actual Implementation Decisions:* The financial results generated by the model are based on a set of assumptions about how the Presidio's future land uses might be implemented. These are assumptions only, and do not represent a schedule or plan for implementation. These assumptions will almost certainly change over time in response to new information and changing market conditions. Thus, the PTMP financial model assumptions (e.g., the number of residential conversions, the level of third-party rehabilitation funding, the amount of space improved, and even the costs and revenues) should be viewed as modeling assumptions only and not as actual policy decisions of the Trust.

Actual residential rents at the Presidio may either decline or increase over the 30-year planning period. Future increases or decreases in rental rates are not reflected in the financial model. Instead, the financial model starts with current (i.e., actual) residential rents at the Presidio and carries them forward 30 years, without any adjustment, even for inflation. The financial model does not reflect business cycles due to the difficulty of forecasting the inevitable but unpredictable ups and downs of the market over a long (30-year) modeling horizon. Furthermore, the purpose of the model – to compare PTMP planning alternatives – is not dependent on the precise revenue assumptions, but on keeping those assumptions constant across the alternatives. Inflation adjustments and other changing assumptions would only complicate the model and obscure the comparison of alternatives.

FI-2. ***Conservative and "Below Market" Office Rents***

Commentors criticize the financial model's office rent assumptions as being too low, therefore unnecessarily lowering revenue estimates. They point to one of the conclusions in a recent General Accounting Office (GAO) Report to Congress (dated October 2001) on progress being made by the Trust toward its mandates: "The General Accounting Office's latest report on the Trust suggests that the 'market rate' rents assumed in the PTIP financial analysis may actually be quite a bit below current market rates in San Francisco[,]" and therefore "tended to minimize projected revenues."

Response FI-2 – The office rent assumptions developed for purposes of the PTMP financial planning model are reasonable and do not understate revenues in the model. When the Trust began the PTMP planning process in early 2000 and initiated the development of a financial planning model to compare the relative performance of different plan alternatives, the San Francisco Bay Area was still in the midst of a dramatic economic growth period. The office rental market in San Francisco was super-charged, as high-technology firms leased any available space at a frenetic pace. At the end of the second quarter 2000, when the GAO was conducting its research, the average annual asking rate for Class B office space was about $65 per square foot (full service)[1] in the City's north financial district and about $60 per square foot (full service) in the City's south financial district.[2] These rents were the highest on record, and double what they had been just two years earlier.

Because business cycles are inevitable, it was unreasonable for planning or financial modeling purposes to assume these super-high rents would continue indefinitely in the future. Rather than relying on unsustainably high market rents for office space as the 30-year office rent assumption in the PTMP financial model, a "market rent," based on historical office market trends, was used as the assumption for the long-term revenue-generating potential of Class B and Class C office buildings at the Presidio. The Trust's real estate consultants looked at a seven-year trend (1994-2000) for Class B and Class C buildings in areas outside the central business district of San Francisco. These data showed an average annual asking rate of about $29 per square foot (full service) for Class B space and about $23 per square foot (full service) for Class C space. Using these figures as guides, the financial model assumed an

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[1] Full service (FS) rents include operating expenses, such as utilities, landscaping, and maintenance costs.

[2] Source: BT Commercial Real Estate, San Francisco Office Report, Second Quarter 2000.

average annual asking rate of about $30 per square foot (NNN)[3] for Class B space and about $20 per square foot (NNN) for Class C space.[4]

The performance of the San Francisco office market since the second quarter of 2000 demonstrates that the modeling decision to base office rent assumptions on trended data was appropriate. As of the end of the first quarter 2002, for buildings outside the Central Business District (i.e., non-CBD) of San Francisco, the average annual asking rate was about $31.00 per square foot (full service) for Class B space and about $23.50 per square foot (full service) for Class C space. These rates, which are substantially similar to the modeled office rent rates, represent a return to 1997 levels.[5] In reality, the rates may be higher or lower over time but, based on the trended seven-year rate, the PTMP office rental rate assumptions are rational and reasonable.

FI-3. *Update of the Financial Planning Model's Assumptions*

The Sierra Club urges the Trust to update the inputs to the financial model to the latest and best information and assumptions regarding rental rates. "The Sierra Club urges the Trust to review its estimates of rental rates used in the long term forecast and include the update in the Final EIS financial model…."

Response FI-3 – In response to this comment, the Trust undertook the review urged by the commentor, and a number of financial model assumptions, including rental rate assumptions, were revised for purposes of presenting an updated financial analysis of PTMP alternatives in the Final EIS. Some of the modeling updates include factual information that has become known or final since the distribution of the Draft EIS. Factual updates included in the baseline financial analysis reflect Fiscal Year 2001 budget figures (expenses and projected revenues), Fiscal Year 2002 budget estimates, terms of the agreement with Letterman Digital Arts, Ltd. (revenues and expenses), actual building lease revenues for 2001, and expected building lease revenues for 2002 and beyond. In response to comments seeking a lower level of park programs, financial modeling assumptions regarding program expenses were also modified. In addition, the financial model was extended from 20 years to 30 years to incorporate the financial implications associated with removal of Wherry Housing over that time frame. Other modeling updates, including rental rate assumptions, are presented in the form of various sensitivity analyses in Volume III of the Final EIS, Appendix K (Financial Analysis). These updates are explained further in the Financial Analysis Technical Memorandum (Final EIS, Appendix K).

With regard to the update of non-residential rent assumptions, the Trust examined whether the 7-year trended average rent rates used in the Draft EIS financial analysis were reliable given the unusually high rates associated with the 1999/2000 economic boom. At the end of 2001, the San Francisco office market was still in the midst of a severe market correction after the surging economy of 1999 and 2000. As a result, the Trust (through its economics consultant, Sedway Group) conducted additional research on current non-residential building rents at the end of 2001, and concluded that continuing to use trended 7-year rates for PTMP financial modeling was reasonable. See Response FI-2. Nevertheless, because these high rates were historically unprecedented, in response to these comments, the Trust performed a sensitivity analysis using an eight-year average rather than the baseline seven-year average. The eight-year average included rates from the more recent market downturn, thereby dampening any upward bias in the rental rate

[3] "Triple-net" (NNN) means rent that does not include charges for operating expenses, which are billed separately. Thus, total tenant occupancy costs include triple-net rent and operating expenses.

[4] Because the Trust also charges office tenants a Service District Charge (SDC) of about $3.60 per square foot per year, the modeling assumption for Class B space is a rental rate of about $33.60 per square foot per year (Full Service) and $23.60 per square foot per year (Full Service) for Class C office space. These figures are slightly higher than the trended, full-service market rents for Class B and Class C buildings outside the central business district of San Francisco. The model assumes a slightly higher full-service rent to account for the superior architectural quality and setting of Presidio office buildings, compared to most Class B and Class C office buildings located outside of San Francisco's financial district.

[5] Source: Cushman & Wakefield.

assumptions. The eight-year average reduced annual Class B office rents (NNN) from $30 to $25 per square foot and annual industrial rents (NNN) from $12 to $7.50 per square foot. Also, to better reflect long-term market fluctuations, the vacancy rate for all classes of office space was increased from five percent to ten percent. These changed assumptions are a reasonable representation of long-term office market conditions and are reflected in a sensitivity analysis contained in the Final EIS, Appendix K (Financial Analysis).

Interestingly, the effect of these changes in the Class B office and industrial rental rates and vacancy rate assumptions on the financial outcome of the alternatives was almost inconsequential, in part because the financial effect is spread over such a long period. When the financial analyses were run for the Final EIS using these revised rates, alternatives that have a more diversified mix of uses, and a large amount of residential space (which, in the San Francisco Bay Area, tends to maintain its pricing better than commercial space during an economic downturn) were less affected by reduced office rents. Reducing industrial rents had little impact because industrial space is not one of the primary revenue-generators in any of the planning alternatives (i.e., industrial revenues in the model are small both on a per-unit basis and as a percent of total revenues). Nevertheless, reducing these rents did result in an extension of the time required to complete the capital program and to fully fund reserves for all alternatives. This extension ranged from three to ten years, depending largely on the dependence of the alternative on Class B office space to generate revenues.

This financial sensitivity analysis and others presented in the Final EIS confirm that any actual deviations from modeling assumptions can affect the financial outcome and thus the temporal performance of the alternatives, sometimes only modestly but possibly significantly. Because there is a high degree of uncertainty inherent in any financial forecast (particularly one as long as 30 years), the financial results should be viewed as reasonable estimates based on reasonable assumptions, and not as predictions of future conditions. The financial analysis presented gives an indication of each alternative's capacity to achieve self-sufficiency, but, as the Trust has repeatedly noted, the model is most useful as a comparative planning tool, not as a financial forecasting or budgeting tool.

FI-4. *Rent Assumptions for Space Leased to Non-Profit Tenants*

Two commentors ask the Trust to reconsider the model's assumption about rental rates for space leased to non-profit tenants. "The Trust should determine what rates have been paid by nonprofits for Class B or other space in San Francisco over the past several years, rather than use Fort Mason as the soul [sic] term of reference for comparables."

Response FI-4 – For all alternatives, the financial model assumes that non-profit office space would be leased on average at $9 per square foot, triple net (NNN), in annual rent. Sedway Group's assumption of $9 per square foot (NNN) was developed based on what tenants currently pay in average triple-net rents at Fort Mason Center (i.e., the primary market comparable), located close to the Presidio. The reasons for using Fort Mason Center as the basis for the model's rent assumption for non-profit space and cultural/educational space at the Presidio are the following:

- *Unique Location Near the Presidio:* The location of Fort Mason Center is most similar to the Presidio's unique location. Fort Mason Center is located at the intersection of Buchanan Street and Marina Boulevard, approximately one mile from the Presidio. The vast majority of San Francisco's non-profit organizations and cultural/educational tenants are located in low-rent areas of San Francisco closer to central downtown, such as Civic Center, Mid-Market/Tenderloin, South of Market and the Mission District. These areas offer critical and convenient access to public transportation and funding sources, such as corporate donors and governmental agencies – benefits that the Presidio does not offer. Therefore, Presidio non-profit space is more comparable to non-profit space at Fort Mason Center than to non-profit space in these other areas.

- *Similar Tenant Mix:* Fort Mason Center is currently leased to a large and diverse group of non-profit and cultural/educational tenants. Presidio tenants envisioned under the GMPA would be closer to tenants occupying non-profit and cultural/educational space at Fort Mason Center than to tenants at any other single location in San Francisco.

- *Similar Limited Public Transportation Service:* Like the Presidio, Fort Mason Center is not located near San Francisco's major public

> transportation networks: the Bay Area Rapid Transit (BART) and the municipal railway system (MUNI). Tenants seeking leasable space tend to prefer locations near public transit to save on transportation costs. Thus, they are likely to pay more for locations near these systems and less for locations not near these systems. This factor would tend to limit achievable rents at the Presidio because of its limited direct access to public transit.

Tenants at Fort Mason Center pay an average annual rent of $9 per square foot, triple net (NNN). At Fort Mason Center, operating expenses are subsidized (i.e., tenants only pay a fraction of utility costs). At the Presidio, tenants would also be charged a Service District Charge (SDC), bringing total annual occupancy costs to $12.60 per square foot. In response to public comments, Sedway Group expanded its research of total occupancy costs for non-profit space throughout San Francisco from what had been done to develop the assumption used in the Draft EIS financial analysis. According to an August 2001 report by CompassPoint Non-profit Services (CompassPoint), a consulting and training firm serving non-profit organizations, the average annual rent in 2000 for non-profit organizations in San Francisco was between $10 and $13 per square foot (NNN). These comparisons are summarized in the table below.

Tenant Occupancy Costs	PTMP Financial Model	Fort Mason Center (1)	CompassPoint Survey (2)
Annual Rental Rate/SF (NNN)	$9.00	$9.55	$10.00 - $13.00
Operating Expenses or SDC/SF	$3.60	$0.20	$2.00 (3)
Total Occupancy Costs/SF	$12.60	$9.75	$12.00 - $15.00 (4)

Notes:
Data as of October 2001. Source: The Fort Mason Foundation.
Data as of 2000. Source: CompassPoint Non profit Services.
Sedway Group estimate.
According to personal communication with Jeanne Peters, one of the principal investigators for the August 2001 CompassPoint report, non-profit organizations of all types in San Francisco in late 2001/early 2002 generally could afford to pay between $13 and $18 per square foot per year (assumed Full Service), with tax-exempt organizations paying at the lower end of this range.

Based on this information (and the Presidio's relative distance from downtown business districts and lack of access to public transportation), Sedway Group recommended the Trust use $9 per square foot per year in triple-net rents ($12.60 in full service rents) as the financial modeling assumption for non-profit and cultural/educational tenants at the Presidio. This rent assumption is reasonable.

FI-5. *Rent Assumption for Office Space Versus Cultural/Educational Space*

The Sierra Club suggests that the financial planning model use the cultural/educational rental rate of $9 per square foot per year (NNN) in the Final EIS for all office space in all of the EIS alternatives. Another commentor suggests that, to ensure affordability to arts and other cultural/institutional tenants, the Trust should commit to leasing at rent levels shown in the financial planning model. The commentor suggests that leasing policies must include a provision for below-market rents for arts, cultural, and institutional uses that provide programmatic contributions to the Presidio.

Response FI-5 – There is no rational basis for applying the model's rent assumption for cultural/educational space to all office space in all alternatives. For an explanation of why $9 per square foot per year (NNN) was applied to office space in the No Action Alternative (GMPA 2000). Refer to Responses FI-4, FI-18 and FI-20.

The financial model's office rental rate assumptions were developed by the Trust's financial consultants, Sedway Group. The model assumes there is no Class A office space at the Presidio. The model's Class B and Class C office rent assumptions are based on an historical trendline, as described in Response FI-2. To prepare a conservative estimate, Class B and C office space rates are based upon a seven-year rental rate trend for this type of space outside the central business district of San Francisco. These data showed an average annual asking rate of about $29 per square foot (full service) for Class B space and about $23 per square foot (full service) for Class C space. Using these figures as guides, the model assumes an average annual asking rate of about $30 per square foot (NNN) for Class B space and about $20 per square foot (NNN) for Class C space.

The Trust determines actual rent levels on a case-by-case basis, depending on the use and space involved, and cannot commit to future leasing at the rates assumed in the PTMP financial model. Again, the model is a planning tool designed to compare the long-term financial performance, particularly the revenue – generation capacity, of different alternatives. Its assumptions are being used solely for the purposes of comparing plan alternatives, not to establish actual leasing terms, budgets, or other specific financial implementation criteria. Also, a single “market rate” will not apply to all cultural/educational tenants. The PTMP land use alternatives allow for a significant amount of cultural/educational space that would include “arts, cultural, and institutional uses which provide programmatic contributions to the Presidio.” The total square footage for these types of uses ranges from more than 100,000 square feet (Minimum Management Alternative) to more than 886,000 square feet (Final Plan Alternative). The following table summarizes the total cultural/educational square footage for each PTMP planning alternative:

PTMP Planning Alternative	Square Feet Dedicated to Tenants in Cultural/Educational Pursuits
Final Plan Alternative	886,630 (25%)
Final Plan Variant	620,291 (20%)
No Action Alternative (GMPA 2000)	542,343 (15%)
Resource Consolidation Alternative	655,981 (17%)
Sustainable Community Alternative	809,931 (22%)
Cultural Destination Alternative	920,802 (23%)
Minimum Management Alternative	104,391 (3%)

Note: Percentages represent percentages of total non-residential square footage in each PTMP planning alternative.

The financial model’s cultural/educational rental rate assumption is based on average rents for galleries/museums, classroom space, theater space, and non-profit office space in comparable locations in San Francisco. Based upon Sedway Group research, the average monthly rent in October 2000 at Fort Mason Center, the primary market comparable for the Presidio (see Response FI-14), was $0.76 per square foot for galleries/museums, $0.76 per square foot for classroom space, $0.73 per square foot for theater space, and $0.80 per square foot for non-profit office space, for an average of about $0.75 per square foot (or about $9 per square foot per year, triple-net).

The range of uses (tenants) and the quality of building space within the cultural/educational land use category will vary widely, and will influence rental rates. No pre-established rental rates are being set through the PTMP planning process, and no single rate will apply to all leased space within any general land use category.

Commentors who urge the Trust to set lower rents, resulting in less revenues, should consider the results of the sensitivity analysis included in the Draft EIS Financial Appendix, and other sensitivities also included in the Final EIS Financial Appendix in response to comments. These analyses indicate the general outcome – in terms of overall financial performance and time – if revenues are lower than projected or if costs are higher. Under some alternatives, lower revenues would dramatically extend the estimated time it will take to complete the capital program and would even put financial self-sufficiency at risk. Results of these sensitivities are referenced in the description of EIS Alternatives, Section 20 of the EIS.

FI-6. *Income Generated from Interest on Investments*

Two commentors suggest that the financial model should not have omitted interest on investments as a revenue source. One commentor notes, “The Draft EIS omits ‘interest on investments’ as a revenue source, even though the Trust’s current budget includes it.” Another commentor: “The Trust’s budget has shown significant interest income for the past two fiscal years. I’ve been told that actual interest in FY 2001 exceeded the budgeted amount and totaled almost $1 million. It makes no sense, then, to exclude interest income from the PTIP financial model and 20-year spreadsheets in the EIS – especially when the spreadsheets do assume a 2.5 percent interest rate in calculating the ‘accrued reserve deficits’ and do show, as an annual expense, the interest paid on Treasury borrowings.” The commentors conclude that the model may be understating reserves by up to a billion dollars and that including interest income on investments would have a positive effect on the financial outlook of the No Action Alternative (GMPA 2000).

Response FI-6 – It cannot be stated too often that the PTMP financial planning model was designed to compare different planning alternatives, not to predict the Trust's long-term costs and revenues or establish the Trust's long-term budgets. Therefore, certain complicating assumptions were omitted in an effort to simplify the analysis and make the comparison among planning alternatives meaningful. This is true in the case of the "interest on investments" assumption, as well as with other assumptions in the financial planning model.

During the actual implementation phase of revitalizing the park, the Trust will generate investment revenues on cash reserves. Omitting this interest on investments in the PTMP financial model is based on several factors, including the recognition that any long-term prediction of interest rates is largely speculative. Also, the model estimates revenues and expenses in "constant" dollars, meaning that inflation is not factored into the cash flow. Accordingly, any inflationary impact on the interest rate earned on investments would need to be removed from the calculation. For example, removing a 3.00-percent inflation rate from a reasonably safe investment, such as a 10-year Treasury note currently yielding about 5.25 percent, would result in a net interest rate of 2.25 percent. In the context of the overall PTMP financial analysis, this amount of interest income would not have a significant impact on the financial performance of the PTMP planning alternatives.

Finally, the financial model was created *to compare the relative financial performance of several land use alternatives*. Including interest on investments in the financial analysis would affect all of the PTMP planning alternatives equally. Therefore, it was reasonable to omit interest on investments, since it was minimal and would not change the relative financial performance of the PTMP planning alternatives.

As a clarification to these commentors, the Sierra Club is incorrect in stating that the financial model "assume[s] a 2.5 percent interest rate in calculating the 'accrued reserve deficits.'" The "accrued reserve deficit" is not calculated as a percent (i.e., 2.5 percent) of revenues. Instead, for the purposes of financial modeling, the "accrued reserve deficit" is calculated as a per-square-foot charge on occupied space. So, as space at the Presidio is occupied, a per-square-foot dollar amount is assumed to be reserved for every square foot that is occupied. This reserve (also called "set-aside funds," "capital replacement reserves," or "reserve set-asides") pays for ongoing building maintenance costs, replacement of buildings and infrastructure at the end of their useful lives, and unexpected extraordinary costs, such as those associated with a catastrophe or natural disaster. The model assumes that once all capital improvements have been made under the modeling of an alternative, this reserve starts receiving cash and eventually becomes a healthy surplus.

As a last point to these commentors, the interest payments on Treasury borrowing were included in the financial analysis because they follow a fixed schedule that has already been established.

FI-7. *Effect of Conservative Assumptions on the Need for New Construction*

The NPS comments that the financial assumptions of the PTMP financial model are overly conservative and should be reconstituted. "Such conservative assumptions, combined with understated revenue projections and inflated operating expenses for programs, could potentially influence the level of demolition and new construction to meet the requirement of self-sufficiency. This possible need for new construction threatens the ability of the Trust to meet one of its essential mandates – to preserve the Presidio's cultural and natural resources."

Response FI-7 – The Trust disagrees with the commentor's assertion that the assumptions used in the PTIP financial model are "overly conservative," or that they jeopardize the Trust's mission to preserve the Presidio's resources for public use. Rather, the financial model's assumptions are reasonable and prudent and reflect an approach consistent with the Trust's fiduciary responsibilities as set forth in the Presidio Trust legislation. These reasonable and prudent assumptions have been determined using the "principle of conservatism," a widely accepted accounting principle defined as follows: *"A reporting objective that calls for anticipation of all losses and expenses but defers recognition of gains and profits until they are realized in arm's length transactions. In the absence of certainty, events are to be reported in a way* *that tends to minimize cumulative income."*[6] Given the impossibility of making an accurate 30-year financial forecast, the Trust believes it has a responsibility to be conservative in modeling its revenue and expense/cost projections. Furthermore, the Trust believes it would be unwise and irresponsible to use overly optimistic financial assumptions to test the PTMP planning alternatives' relative abilities to satisfy the Trust's financial mandate.

These reasonable and prudent financial modeling assumptions do not "create the need for new construction" in any of the PTMP planning alternatives. In fact, based on the revenue assumptions, newly-constructed buildings generate substantially lower revenues than existing buildings rehabilitated by the Trust. The model assumes conservatively that new buildings would be constructed by third parties and that the Trust would collect ground rent.[7] Under the model, ground rent is assumed to equal 20 percent of building rent (e.g., the model assumes annual rent for retail buildings to be $18.00 per square foot (NNN), whereas the annual rent for land on which new retail buildings are constructed is assumed to be 20 percent of this figure, or $3.60 per square foot (NNN)). In the Final Plan Alternative, for example, ground rent revenues for new construction projects equal less than 3 percent ($2.2 million) of the total stabilized annual operating revenues ($78.1 million).[8] Thus, new construction is not included in the PTMP financial analysis to "make up for" conservative revenue assumptions. Rather, new construction is assumed as one of many planning options to further other planning goals and policies associated with each PTMP planning alternative (i.e., goals and policies that preserve the Presidio's cultural and natural resources).

Finally, the commentor should be reminded that the financial model is not a decision document and will not be used to "influence" specific implementation decisions. Such decisions will require detailed and updated analysis of financial conditions at the point in time they are made, as well as a thorough consideration of non-financial issues and planning objectives.

Assumptions Concerning Operating Expenses and Capital Costs

FI-8. ***Operating Expenses as Variable Across Alternatives***

A neighborhood group urges the Trust to reduce the level of its annual operating expenses across the board in all PTMP planning alternatives. A number of commentors also challenge the financial model's assumption of constant operating costs for all alternatives over certain cost categories. The CCSF Planning Department questions the financial modeling assumption of applying constant Year 2001 budget figures for certain cost categories (special events, public safety, finance, insurance, and programs) in each alternative regardless of square footage, residents, employees, and visitors. A neighborhood group asks the Trust to explain why the financial model assumes roughly the same annual operating expenses ($44.3 million per year to $46.3 million per year) for all alternatives.

Response FI-8 – The Presidio is expensive to operate, and an estimated 50 percent of all operating costs are non-discretionary, as illustrated in Chapter Four of the Final Plan. Non-discretionary costs include those associated with public safety (police and fire), property management and leasing, utilities, maintenance and landscaping, financing costs, and insurance. Nonetheless, the Trust is committed to reducing operating costs over time, and related assumptions are incorporated into the financial model (i.e. 10 percent reduction in 2007, 2013, and 2020). In fact, the Trust has reduced operating costs by 12.4 percent between Fiscal Year 2002 and 2003.

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[6] Source: Financial Accounting, An Introduction to Concepts, Methods, and Uses, Sixth Edition.

[7] Collecting ground rent is a middle position between selling land and leasing finished building space. The Trust is prohibited by law from selling land and at times may not have sufficient capital resources to refurbish buildings to a finished state. Through a ground lease, the Trust can offer the right to use a land parcel for a definite length of time and can secure a builder/tenant who is willing to invest the necessary capital to undertake improvements. The ground rent is the annual payment to the Trust for land value. Land value is determined by the expected income stream that can be generated from the parcel after taking into account the investment required to generate that income (i.e., capital and operating costs).

[8] This is true after the capital program is completed.

Commentors ask the Trust to modify operating expenses in the financial model according to differences in square footage among the alternatives. In response to these comments, the Trust re-examined the financial model's initial assumptions about operating expenses and conducted a sensitivity analysis that is included in the Final EIS, Appendix K (Financial Analysis). The result of this re-assessment was a decision to continue to use generally constant operating expenses as a modeling baseline across the range of alternatives, as was done in the Draft EIS financial analysis. This approach is based upon several factors. First, the model was created as a planning tool to compare the relative financial performance of different land use scenarios. Its utility lies primarily in its capacity to indicate the revenue-generating potential of different alternatives relative to one another; it does not predict future financial conditions or outcomes. See Response FI-1. Second, the use of generally constant operating expense assumptions is based upon the Trust's continued view that within the range of square footage under consideration (4.7 million to 5.96 million square feet), variations in total operating expenses over the 30-year horizon would not materially affect the relative performance of the alternatives. Third, the model accounts for variation in operating expenses over time, but does so in a manner consistent with the purposes of the model. The approach commentors suggest assumes that the model will be used for other purposes.

Nonetheless, in response to commentors' suggestions to vary operating expense assumptions by square footage differences, the Trust performed a sensitivity analysis to look at this factor's effects. (Results can be found in the Final EIS, Appendix K.) Trust staff examined the Fiscal Year 2002 budget documents to determine functions that might be dependent upon the total amount of building square footage in the park, and determined that about 25 percent of current expenses could vary with building space. This estimate was incorporated into the financial planning model as a sensitivity analysis that assumed that 25 percent of each operating expense category (i.e., facilities, operations, legal, planning, real estate services) varied by the alternative's total square footage.[9] Thus, assuming the maximum total square footage of approximately 6 million square feet, alternatives with less square footage would have somewhat lower total operating expenses.

Changing the operating costs assumptions altered the timing of completion of two alternatives, by between one and five years. Importantly, however, the relative performance of the alternatives did not change in other ways, and varying operating costs by square footage is immaterial to the self-sufficiency outcome of the alternatives. In other words, alternatives with lower square footage performed somewhat better, but not remarkably so. This is because having less square footage reduces the overall revenue generation of the Presidio, which in turn affects the Trust's ability to pay fixed operating costs and capital costs.

In reality, there are many variables that will affect the Presidio's future over the next two to four decades. The financial planning model was designed primarily to compare planning alternatives and not to predict a multitude of financial variables over a 30-year planning horizon. Attempting to adjust operating expenses, as commentors urge, to reflect actual variability and accurate expenses is not possible over the period of the financial planning model nor is it considered material for purposes of a financial model designed to compare planning alternatives. Also, assuming variable operating expenses for different alternatives would make it more difficult for public reviewers to compare one alternative to another.

FI-9. *Reducing Capital Costs in General and Tying Them to Square Footage*

Commentors suggest generally that capital costs assumed in the model are overstated and should be reduced. Commentors who suggest that capital costs in general are overstated more specifically suggest that the Trust should assume lower infrastructure costs in the Final Plan Alternative. The Sierra

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[9] Two expense categories in the model – releasing reserves and residential affordability subsidy – already vary by the total square footage of the alternatives.

Club states, "The GAO reported that 80 percent of utility and telecommunications upgrades will be completed by the end of FY 2002; the Trust should explain what remains to be done and how it affects the remaining infrastructure expenses shown in PTIP." The Sierra Club also suggests that the Trust reduce the scheduled infrastructure capital costs assumed in the model by $1 million per year to "allow financing 80 percent of the [PTMP] planned infrastructure during the same period."

Response FI-9 – The capital cost assumptions of the financial model are reasonable, are not overstated, and are already tied to square footage variations among the planning alternatives. As with operating expense assumptions, the Trust developed capital cost assumptions, many on a per-unit basis, for use in the PTMP financial planning model. These assumptions are based on a combination of experience implementing Presidio capital improvement projects and reasonable estimates. Per-unit capital cost assumptions are the same across all PTMP planning alternatives. For example, the cost of rehabilitating one square foot of non-residential space, or the cost of creating one acre of new open space, is the same across all PTMP planning alternatives. In this way, capital costs are in fact tied to square footage, because as square feet of rehabilitated building space or acres of restored open space vary across the range of alternatives, the unit capital costs are applied to each alternative's unique facts so that in the end the total capital costs of each alternative vary in comparison to one another. See also Response FI-22.

As with the operating expense assumptions, this methodology was followed for capital costs in order to make the comparison among PTMP planning alternatives meaningful. In actuality, capital costs will be higher or lower than the modeling assumptions. Also, it is difficult to accurately forecast capital costs associated with historic buildings, aging infrastructure, and natural resource enhancements because so many of the costs depend on details of a building's condition, the condition of a utility line, or the nature of the natural resource program designed.

In response to comments, the Trust re-examined the infrastructure capital cost assumptions originally developed for the PTMP financial planning model. At the time the cost assumptions were developed for modeling purposes, they were based upon the best available information. Some cost assumptions, like infrastructure capital cost assumptions may be too high and others too low. See Response FI-31. Cost estimating, particularly over a long planning horizon, is inherently uncertain, and in general, estimates that may be high are likely to be reasonably offset by others that are low. A change in this assumption would have been made across the board for all alternatives and therefore would have had an equal effect across the range. For this reason, a change in this assumption would not have provided new or different information in this context, where the model is used only as a comparison tool rather than prediction of financial results.

The assumption of relatively high front-end infrastructure costs is reasonable for other reasons. As a general principle of land use planning, in master-planned developments, the infrastructure backbone is typically developed first so that the rest of the development can be built and serviced. Thus, there is typically a very large up-front investment in capital costs during the initial years of the development process. These costs are then amortized over several years as project revenues are generated and the development stabilizes.

A similar concept is applied under the PTMP financial model. Capital costs are spread over the planning period according to an assumption that is consistent across all alternatives, and capital projects are then funded according to a scheduling assumption. The modeling schedule places a high priority on the park infrastructure improvements needed to support building use and occupancy, which in turn generates cash early in the planning process so that other capital projects can be funded and completed during the later years of the planning alternative. For this reason, the model assumes that as cash becomes available, residential building rehabilitation is funded first, followed by park-wide infrastructure improvements. Thus, infrastructure projects are funded under the model as cash becomes available. Annual capital costs in the PTMP financial analysis cannot be reduced, as the Sierra Club suggests, simply by spreading them over a larger number of years. To do so, one must assume a different purpose for the financial planning model.

FI-10. ***Assumptions About Third-Party Financing***

The NPS and the Sierra Club comment that the Trust has unrealistically overstated rehabilitation capital costs by assuming in the financial model that all building rehabilitation will be financed by the Trust. The NPS suggests changing this assumption because it is reasonable to assume that private investors may assume some of these costs under a ground lease scenario that would allow for capture of investment tax credits for historic building rehabilitation. Also, one commentor suggests that the Trust include in its financial analysis tenant contributions (in the form of in-kind or in-lieu fee contributions) needed for park programming.

Response FI-10 – The Trust agrees that, during plan implementation, private investors will likely finance some building rehabilitation projects under ground lease-type arrangements. See Response FI-7. In response to comments, the importance of a balanced approach to Trust-funded and third-party-funded rehabilitation projects is discussed in Chapter Four of the Final Plan.

The Trust has decided not to change the PTMP financial modeling assumption regarding third-party financing (i.e., the assumption that the Trust finances all building rehabilitation in all alternatives). This is because the goal of the model was not to predict the proportion of building improvements that would be financed by third parties, but incorporate a reasonable assumption that could be applied across all alternatives so that a meaningful comparison could be made. The assumption allows for the meaningful comparison among alternatives, even if actual implementation differs.

Although the baseline model assumption was not modified in response to public comments, the Trust conducted a sensitivity analysis to test and show the effect of a change in the third-party financing assumption on the relative performance of different alternatives. See Final EIS, Appendix K, Financial Analysis Technical Memorandum. The sensitivity analysis assumed that the rehabilitation of some non-residential building clusters was financed by third parties. The primary advantage of this revised assumption is that third parties can rehabilitate buildings at the Presidio at any time, regardless of the availability of Trust revenues. Trust-funded rehabilitation can only be undertaken if the Trust has sufficient cash available at the time to pay for the improvements. Third-party financing can thus accelerate the pace of rehabilitation and revenue generation at the Presidio, and it can proceed even while other Trust-funded rehabilitation is occurring simultaneously. This advantage, however, must be weighed against a disadvantage: buildings that are rehabilitated by third parties generate lower rents for the Trust than buildings that are directly rehabilitated and leased by the Trust. Third parties who invest in rehabilitating buildings expect a discount in rent to account for their capital investments. For the purposes of the PTMP financial model only, it is assumed that this discounted rent equals 20 percent of market rent.

As demonstrated by the sensitivity analysis, assuming some third-party financing affects the financial outcome of the modeled alternatives in three important ways: (1) total capital costs are reduced, (2) building rehabilitation is accelerated, and (3) annual revenues decline because buildings rehabilitated by third parties generate less revenue for the Trust. Thus, there is a trade-off associated with third-party financing. While third-party financing can help the Trust lower its capital costs and rehabilitate its buildings within a shorter timeframe, it also reduces the revenue-generating potential of the Presidio's buildings over the long term. For a more complete discussion of the effect of the sensitivity analysis on different alternatives, refer to the Financial Analysis Technical Memorandum in Appendix K of the Final EIS.

The Trust has also chosen not to include tenant contributions for park programming (in the form of in-kind or in-lieu fee contributions) in the financial analysis assumptions. Requiring tenant programmatic contributions, either as services or fee surcharges, is effectively an alternative form of rent. These fees or services would be a "cost of doing business" at the Presidio, and rents would need to be adjusted downward accordingly in order to remain competitive with other parts of San Francisco (i.e., where tenants do not have to pay such fees). Thus, in the comparison of alternatives, if these costs were accounted for by first reducing assumed rents and then adding them back as assumptions regarding in-kind or in-lieu fee contributions, it would not have altered the outcome of the financial analysis comparisons.

FI-11. ***The Presidio Trust's 2002 Operating Budget***

The Sierra Club suggests that the financial model assumptions should reflect decreases in the Trust's 2002 operating budget. "The 2002 operating budget for the Trust has been adopted, showing a $4 million reduction from the levels shown in the PTIP financial model in key operating costs….The Sierra Club urges the Trust to include this $4 million reduction in selected operating expenses in the preferred alternative as the most recent and reliable level of operating expenses."

Response FI-11 – The Trust adopted the commentor's suggestion. The PTMP financial analysis for all alternatives in the Final EIS was updated to reflect the Presidio Trust's Fiscal Year 2002 budget estimate. This budget estimate is $4 million less than the budget estimate in the Draft EIS, as the commentor notes. See Response FI-3 for a description of updates to the baseline financial model.

FI-12. *Natural Lands Management Costs*

The NPS comments that the Trust should transfer natural lands management to the NPS in order to reduce Trust expenditures in this category.

Response FI-12 – For purposes of the financial modeling of the PTMP alternatives, the Trust did not assume the transfer of natural lands management to the NPS. To have assumed in the model that the NPS would or could fund open space and natural resources enhancements and management would have been inconsistent with the model's basic principle of conservatism, and entirely inappropriate. Had the Trust assumed the transfer of natural lands management and associated costs to the NPS, the financial planning model would have eliminated millions of dollars in operating costs and in open space and natural resource-related capital expenditures over its 30-year term. It is not clear that the NPS would have the ability to absorb these costs. In addition, Congress created the Trust to protect, preserve, and enhance the resources of the Presidio and to use self-generated revenues to accomplish these goals; it would be a failure of the Trust's fiduciary charge to ignore natural lands management costs on the assumption that they could be covered by the NPS. For further discussion of this issue, refer to Response OS-5.

Various Residential Assumptions

FI-13. *Rehabilitation and Subdivision Costs*

The Sierra Club comments that the Trust should modify residential building capital cost assumptions in the financial model to reflect the amount of rehabilitation and subdivision work in each PTMP planning alternative.

Response FI-13 – The residential building capital costs in the financial model do, in fact, reflect an assumed level of rehabilitation and subdivision work for each PTMP planning alternative. The Trust consulted with professionals experienced in estimating residential building capital costs. For example, residential rehabilitation costs for each PTMP planning alternative were calculated using unit-cost estimates for specific building types (e.g., masonry, wood frame) developed by the Presidio Trust Facilities Department. These estimates were based on experience rehabilitating units in the Presidio's residential neighborhoods. The basis for the financial model's subdivision cost assumption was a report by an architectural consultant with experience in rehabilitating and subdividing historic residential structures. The consultant estimated the potential for subdividing different types of structures and estimated conversion costs (unit cost) associated with subdividing Presidio housing. The estimated unit cost was not considered precise enough for budgeting purposes, but provided a reasonable basis for assumptions used in the financial model. For more information about these rehabilitation and subdivision cost assumptions, please refer to the Final PTMP Financial Model Assumptions and Documentation binder (dated May 2002) located in the Trust offices.

The amount of residential space (both number of units and total square footage) that was assumed to be rehabilitated or created by dividing large units into smaller units in each PTMP planning alternative is presented in the table below. Those alternatives that assume that a larger number of existing units are subdivided into smaller units have a relatively higher level of residential building capital costs.

PTIP Planning Alternative	Residential Rehabilitation Units Assumed	Residential Rehabilitation Square Feet	Residential Subdivisions Units Assumed[10]	Residential Subdivisions Square Feet
Final Plan Alternative	652	941,781	534	559,778
Final Plan Variant	415	676,119	693	809,910
No Action Alternative (GMPA 2000)	767	1,323,656	0	0
Resource Consolidation Alternative	307	837,247	16	15,226
Sustainable Community Alternative	483	1,207,874	473	506,756
Cultural Destination Alternative	561	843,373	251	278,534
Minimum Management Alternative	1,654	2,431,873	0	0

The second table presents the results of the financial modeling showing the cost of rehabilitating or subdividing the residential space (number of units or total square footage) listed above, by PTMP planning alternative:

PTMP Planning Alternative	Residential Rehabilitation Total Cost	Residential Subdivisions Total Cost
Final Plan Alternative	$41 million	$107 million
Final Plan Variant	$35 million	$158 million
No Action Alternative (GMPA 2000)	$33 million	$0
Resource Consolidation Alternative	$35 million	$3 million
Sustainable Community Alternative	$42 million	$38 million
Cultural Destination Alternative	$37 million	$51 million
Minimum Management Alternative	$57 million	$0

[10] Unit totals represent number of units after subdivision of existing residential space.

It should be noted that the precise number of housing units that can reasonably be created by dividing large units into smaller units, and by converting non-residential space to residential use is not fully understood. For this reason, the Final Plan incorporates a wide range of possibilities, indicating that between 270 and 570 dwelling units or dormitory-type accommodations can be created within existing buildings. See Chapter Two of the Final Plan. Accordingly, the assumptions used for each alternative should be viewed as just that – assumptions. The costs associated with dividing units and converting non-residential space is also likely to be building-specific and therefore will vary greatly. Another cost of dividing large units is the loss in rent during construction. As described in response to comments on housing, the feasibility of dividing units and converting space will depend on the actual costs, and the amount of time it will take to amortize those costs.

FI-14. ***Maximum Feasible Residential Conversions as a Financial Strategy***

The Sierra Club comments that pursuing the maximum number of feasible residential conversions to smaller units is the most efficient strategy to provide replacement housing units at the least cost.

Response FI-14 – See also Response HO-9. Based on results of the PTMP financial analysis, it cannot be definitively concluded, as the Sierra Club argues, that subdividing existing residential units into smaller units is “the most efficient strategy to provide additional housing at least cost,” although the Final Plan Alternative identifies subdivision of existing dwelling units and conversion of non-residential space to residential use as ways to provide replacement housing.

The capital investment needed to subdivide existing residential units, many of which are historic and therefore require special consideration under the NHPA, is very high. Based upon a preliminary estimate by a qualified architectural consultant who has experience with historic and non-historic residential subdivisions and conversions, capital costs could range from roughly $140 to $300 per square foot for historic buildings, and from roughly

$125 to $250 per square foot for non-historic buildings.[11] It is likely that projects falling at the low end of this range will prove feasible, and the financial planning model assumes a cost of $200 per square foot. This generalized cost assumption was the best available information, and is greater than the estimated cost of $175 per square foot to build new residential units (although either cost may ultimately be borne by a third party instead of the Trust, if the subdivision/conversion and/or new construction is undertaken by residential developers). The Final EIS (Appendix K, Financial Analysis Technical Memorandum) contains further discussion of the relative implications of residential rehabilitation/conversion versus new construction under the model.

In actuality, the decision about the "most efficient strategy" for replacing housing units is much more complex than the model assumes. This decision will be made only as part of specific future proposals for Final Plan implementation, and will depend upon more than simply a unit-cost comparison. In many cases at the Presidio, the incremental revenue gained from subdividing existing residential units may not be great, and it could take decades before the incremental revenue covers the subdivision costs. There may be other instances where, from a policy or economic perspective, subdividing the largest existing residential units into smaller units may be an effective strategy. Smaller units (i.e., one- or two-bedroom units) are better suited to meet Presidio-based employee housing demand as well as the broader demand in the San Francisco residential market. In other instances, the policy objective of replacing housing units may be achieved by constructing new, appropriately sized residential units at the Presidio. The PTMP financial model, however, cannot definitively answer this question, because the model was designed to broadly compare land use alternatives. It was not designed to accurately analyze specific future implementation choices and decisions, particularly decisions like these that may have to be made on a building-specific basis.

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[11] Page & Turnbull, Inc. and Solomon E.T.C., "Presidio Housing Conversion Study," October 19, 2000 (Methodology section, page 3).

FINANCIAL EVALUATION OF THE NO ACTION ALTERNATIVE (GMPA 2000)

Financial Modeling Assumptions of the No Action Alternative (GMPA 2000)

FI-15. ***Clarification of the No Action Alternative (GMPA 2000)***

One individual states that "hundreds of citizens look forward to seeing the financially viable presentation of the GMPA Alternative [in] the PTIP public review process…."

Response FI-15 – It is not clear from this statement whether the commentor's expectation is that the Trust would be analyzing the GMPA as it was finalized by the NPS in 1994 or whether the Trust would be considering an alternative closely modeled on the 1994 GMPA (i.e., the No Action Alternative (GMPA 2000)). The Trust is responding to this statement to clarify the No Action Alternative (GMPA 2000).

The GMPA 2000 Alternative is the NEPA "No-Action" alternative and has been formulated to include the specifics of the 1994 GMPA as closely as current circumstances allow. The reader should refer to Responses EP-14 and AL-1 for full clarification of the No Action Alternative (GMPA 2000). The 1994 GMPA, as adopted by the NPS, included several critical financial assumptions that are no longer true – such as receipt of continued annual federal appropriations and the existence of the Sixth U.S. Army as a Presidio tenant – and assumed a level of philanthropic support that cannot be assured. As a result, the 1994 GMPA has been updated to reflect significant financial changes – changes that have important implications for the financial viability of the Presidio. The financial assumptions in the No Action Alternative (GMPA 2000), therefore, have been modified from those in the 1994 GMPA to incorporate the financial limitations set by the Trust Act, to reflect other financial changes that have occurred since 1994, such as new leases and the Lucas Digital Arts Center (LDAC) development agreement for the Letterman site, and to eliminate the assumption that philanthropic gifts will always materialize when needed. Based on these modified assumptions, the financial analysis conducted during the PTMP planning process shows the No Action Alternative (GMPA 2000) to be financially self-sufficient and sustainable, as are all the other EIS alternatives. Without these modified assumptions, the 1994 GMPA would not have met the threshold criterion of financial self-sufficiency or represented a true “no action” condition.

FI-16. *Financial Assumptions of the No Action Alternative (GMPA 2000))*

A number of commentors state that the Trust structured the No Action Alternative (GMPA 2000) in such a way as to place it at a financial disadvantage when compared to other options. They suggest that the Trust had arbitrarily constructed the No Action Alternative (GMPA 2000) differently from all other options in order to bias the planning process outcome. (“It is … discouraging to see that … the GMPA 2000’s finances have been arbitrarily handicapped – and that the Trust has played on this handicap to argue in favor of a much less desirable PTIP alternative.”) One commentor notes that the Trust had made it “appear as if paying for parkwide capital improvements and creating a reserve fund will take much longer under the GMPA 2000 alternative. It also leads to the GMPA alternative showing a small negative net cash flow in FY 2013 (EIS page 375). And the text of the Draft EIS plays on this by claiming that the GMPA 2000 Alternative is financially ‘more marginal than some other alternatives’ (Draft EIS at pages 374-377 and elsewhere).”

Response FI-16 – The Trust did not, as commentors assert, arbitrarily place the No Action Alternative (GMPA 2000) at a financial disadvantage. On the contrary, the Trust took considerable pains to develop the No Action Alternative (GMPA 2000) as suggested by commentors in the scoping period. That is, to craft an alternative as close as possible to the 1994 GMPA that would also meet the requirement of financial self-sufficiency. The Trust then developed and applied financial assumptions that reasonably represented the assumed land uses of each alternative and applied them, consistently and fairly, to analyze the financial performance of each EIS alternative.

There are a number of reasons why the No Action Alternative (GMPA 2000) did not perform as well financially as the other PTMP planning alternatives, and these reasons stem from the land use program and policies outlined in the 1994 GMPA. For example, the 1994 GMPA called for an emphasis on leasing to tenants who would further a mission related to global environmental, cultural, and social themes. As a result, the No Action Alternative (GMPA 2000) assumes a greater percentage of non-profit tenants who, based on market research, would not on average pay rent comparable to other San Francisco Class B and Class C office rents. This leasing approach affects the revenue-generating potential of the No Action Alternative (GMPA 2000). In addition, the 1994 GMPA called for the demolition of Wherry Housing as soon as it was no longer used by military personnel. Thus, in the preliminary financial analysis made public in December 2000 during the scoping period, Wherry Housing was assumed to be demolished earlier under the No Action Alternative (GMPA 2000) than under the other EIS alternatives, because the Army had by 2001 already largely vacated the Presidio and was not using Wherry Housing. In response to public scoping comments, and because the No Action Alternative (GMPA 2000) was not financially viable with complete demolition of Wherry Housing in 2004, the Trust revised its assumption in the Draft EIS financial analysis. The analysis of the No Action Alternative (GMPA 2000) now assumes that Wherry Housing would be fully demolished after the end of the 1994 GMPA’s plan horizon in 2010. (The model assumes that demolition would occur in 2012.) As a result, the No Action Alternative (GMPA 2000) meets the test of financial self-sufficiency and remains as true to the 1994 GMPA as possible, but does not perform as well financially as other alternatives. See Response FI-17, below, for more discussion of this issue.

FI-17. *Timing of Wherry Housing Demolition in the No Action Alternative (GMPA 2000)*

A number of commentors suggest that the Trust had arbitrarily varied the timing of demolition of revenue-generating facilities, such as Wherry Housing. They believe that the Trust unnecessarily biased the financial analysis of the No Action Alternative (GMPA 2000) by assuming an earlier demolition of Wherry Housing in that alternative than in other alternatives. (“There is no justification for this handicapping of the GMPA 2000! It is inconsistent with the 1994 GMPA, which calls for Wherry to be demolished in the final phase of converting the Presidio into a park. This handicapping replicates one of the most serious flaws in the PTIP financial analysis presented to the public during scoping … [and] makes it appear that the GMPA would take longer than the Draft Plan to fund capital improvements and create a reserve fund. [It is] … disturbing to see that the text of the Draft

EIS plays on this appearance, claiming that the GMPA 2000 is financially ‘more marginal than some other alternatives.’ I believe that this appearance of marginality is in fact an illusion. And I believe it is unfair to the public for the EIS to make these claims.”) They believe the Trust should have “level[ed] the playing field” by analyzing the alternatives with the same assumption about the timing of demolition of Wherry Housing across all alternatives. A letter from the CCSF Planning Department urges the Trust to consider changing the Wherry Housing demolition assumption for the No Action Alternative (GMPA 2000). (“Wherry Housing is a significant revenue source that has a positive effect on the financial performance of any alternative and the Draft Plan alternative was given an artificial boost by assuming different phasing of demolition.”)

Response FI-17 – The assumption for the timing of the Wherry Housing demolition in the No Action Alternative (GMPA 2000) is based on the timing as provided in the 1994 GMPA. As the commentor correctly notes, the 1994 GMPA called for Wherry Housing’s full demolition in the final phase of GMPA implementation. The Plan itself (1994 GMPA, page 115) and its implementation strategy (Presidio Building Leasing and Financing Implementation Strategy, July 1994.), published as a separate and supporting volume of the 1994 GMPA, assumed complete implementation of the NPS plan by 2010. For financial modeling purposes, it was assumed that demolition of Wherry Housing would be completed by 2012 under the No Action Alternative (GMPA 2000). This timing assumption is as close as possible to the 1994 plan, and is therefore the assumption that is most consistent with the “continuation of the existing management program” (i.e., the “No-Action” alternative required by NEPA). For more information, see Response EP-14. Application of this reasonable and necessary assumption cannot be labeled “an artificial boost.”

Nevertheless, as the commentors note, the timing of Wherry Housing demolition does significantly affect revenue generation and therefore the relative financial performance of all the alternatives. The Trust chose to address commentors’ assertions of prejudice and their requests to delay the timing of demolition, by conducting sensitivity analysis incorporating a phased demolition of Wherry Housing under the No Action Alternative (GMPA 2000) identical to the demolition timing assumptions for the Final Plan Alternative. The sensitivity analysis assumed demolition of the residential units as follows: one-third in 2012, one-third in 2020, and one-third in 2030. Phasing the demolition of Wherry Housing in this way positively affects the financial performance of the No Action Alternative (GMPA 2000) after 2012. The capital program would be completed by approximately 2030, about 10 years earlier than under the baseline No Action Alternative (GMPA 2000). Also, it is estimated that revenues would be fully funded by between 2035 and 2040, while under the baseline No Action Alternative (GMPA 2000) the revenue between 2050 and 2055.

A second sensitivity analysis was conducted on the No Action Alternative (GMPA 2000) incorporating the phased demolition of Wherry Housing between 2012 and 2030. The sensitivity analysis also incorporated increased capital costs 15 percent above the baseline capital cost figure) and reduced non-residential rental rates. See Response FI-3 for a description of the revised rental rate assumptions. In this sensitivity analysis, the benefits of revenues associated with maintaining a portion of Wherry Housing over a longer period are offset by the increased capital costs and reduced non-residential revenues. The time required to complete the capital program remains the same as in the baseline scenario, estimated at approximately 2040. Because of reduced non-residential revenues over the long term, the time required to complete the implementation phase is extended slightly, from between approximately 2050 and 2055 in the baseline scenario to approximately 2055 in the sensitivity.

FI-18. ***Non-Residential Rent Assumptions in the No Action Alternative (GMPA 2000)***

Commentors suggest that the financial model’s non-residential rent assumptions in the No Action Alternative (GMPA 2000) is too low, thereby creating a biased view of the alternative. These commentors indicate that the Trust’s $9-per-square-foot-per-year assumption for mission-related tenants was “below market” as compared to other assumed average office rents and should be increased. One commentor states that the Draft EIS “fails to explain” why in this alternative more than half the park’s non-residential building space (73 percent of the 3.69 million square feet) is assumed to be rented to mission-related tenants at below-market rates. He suggests that, because the model assumes the Trust will fund renovation of existing buildings, the assumption of below-market rents from mission-related tenants should be changed. This commentor suggests a "middle-ground approach, with average [annual] rents higher than $9 [per square foot] but lower than market rate" proposing "$15 [per square foot], on average, for Class B office space and $3 [per square foot] (or even zero!) for Class C office space…."

Response FI-18 – It is not accurate to say that rent assumptions in the No Action Alternative (GMPA 2000) are "below-market." The assumption of $9-square- foot is "market rent" for San Francisco non-profit tenant space (i.e., the type and quality of office space most commonly affordable by non-profit tenants). This space is most comparable to the kind of space envisioned in the 1994 GMPA. Hence, the Trust cannot simply assume higher rents and expect to attract the mission-related tenants envisioned in the 1994 GMPA. If rents were simply increased to "market rates" for San Francisco commercial office space or even to a rate higher than what non-profit tenants could pay elsewhere for comparable or better space, the tenant base at the Presidio would be much different than the tenant base envisioned in the 1994 GMPA (i.e., there would likely be fewer mission-related tenants).

For all alternatives, the financial model assumes that non-profit office space and/or cultural/educational space would be leased on average at $9 per square foot, triple-net (NNN), in annual rent. Sedway Group's assumption of $9 per square foot per year (NNN) was developed and based on what tenants currently pay in average triple-net rents at Fort Mason Center (i.e., the primary comparable market), located close to the Presidio. The reasons for using Fort Mason Center as the basis for the model's rent assumption for non-profit space and cultural/educational space at the Presidio are described in Response FI-4, above

FI-19. *Non-Residential Revenue Yield Under the No Action Alternative (GMPA 2000)*

One commentor also questions the financial model's non-residential revenue results for the No Action Alternative (GMPA 2000). This commentor states, "It appears that the $14 million annual non-residential rent total in the GMPA 2000 spreadsheet should be closer to at least $28 million. And if the Trust anticipates charging more than $9 [per square foot] per year for at least some non-residential tenants, then even the $28 million annual total may be much too low … Note that the GMPA 2000 spreadsheet ([Draft] EIS, Appendix J) shows a much lower annual non-residential rent total; only some $14 million – not $28 million – in FYs 2011 through 2020." The commentor asks the Trust to explain this apparent discrepancy.

Response FI-19 – The estimated non-residential revenues in the No Action Alternative (GMPA 2000) are correct based on the model's rental rate assumptions and assumed schedule of building rehabilitation. Other than a limited amount of Treasury borrowing ($50 million) that is assumed to be fully expended in the Trust's initial years, the analysis does not assume that the Trust would borrow money to fund capital projects. This assumption is based upon provisions of the Trust Act and the status of Treasury borrowing authority in Fiscal Year 2000 when modeling assumptions were developed.[12] As a result, the model assumes that currently vacant buildings can only be rehabilitated as revenues/cash become available. The unrehabilitated and vacant buildings do not generate rent revenues in the financial model. However, the commentor assumes that all non-residential buildings would be generating revenues between 2011 and 2020. This would require that all non-residential buildings be rehabilitated by 2010, which is an unrealistic assumption.

In the Draft EIS, it is estimated that only about 50 percent ($139 million) of the $276 million in non-residential rehabilitation would be funded by 2013 under the No Action Alternative (GMPA 2000) based on the revenues available to fund rehabilitation work. Non-residential revenues would not be

[12] Since the time that the PTMP financial model was developed, the Trust Act has been amended to allow additional Treasury borrowing authority. However, receipt of any additional borrowed funds is dependent upon Congressional appropriation. In the current war-time economy, the Trust has been given indications that its base-level appropriations could be at risk and any further appropriation to authorize additional borrowing could be unlikely. Therefore, the model assumes only $50 million (i.e., the amount already appropriated) in borrowed funds for each alternative, rather than assuming the higher amounts authorized in the Trust Act. This assumption is consistent with the principle of conservatism guiding the financial analysis.

stabilized until all buildings have been rehabilitated, which would occur in approximately 2035 under the No Action Alternative (GMPA 2000). At that point (approximately 2035), stabilized non-residential revenues would total roughly $18.9 million (not including SDC). In 2020, non-residential revenues would total $14.7 million, because a substantial number of buildings would not yet be rehabilitated due to insufficient available cash in the preceding years.

The commentor suggests that annual non-residential revenues under the No Action Alternative (GMPA 2000) should be closer to $28 million. This assertion is based on multiplying $9 per square foot by about 3.1 million square feet of non-residential space.) The methodology used to calculate this figure is incorrect for the following two reasons.

First, non-residential revenues are calculated by applying an annual rental rate for each land use to the amount of *occupied* square feet of that land use during each year. The annual rental rates vary from $5 per square foot for recreational space to $26.75 per square foot for lodging space. The commentor assumes that 2.69 million square feet of non-residential space (not including LDAC) generates revenues. This is incorrect. Not all of this space generates revenues. In fact, significant portions of this space, such as the following do not generate revenues:

- Approximately 400,000 square feet are set aside for use by the Trust, the NPS, and infrastructure facilities. These uses do not generate rental revenues. (This assumption is consistent across all EIS alternatives.)

- An additional 290,000 square feet represents conference space, which is assumed to generate no rental revenues. (This assumption is consistent across all EIS alternatives.)

- While lodging space generates significant per-unit rents and the land use program for the No Action Alternative (GMPA 2000) includes a large amount of lodging space, a substantial portion of this space (230,000 out of 362,000 total square feet) is located in the assumed Fort Scott Presidio Institute conference center. Based on a previous analysis, this Fort Scott lodging space is assumed to generate no rental revenues. (This assumption is consistent across all EIS alternatives.)

- About 170,000 square feet are assumed to be new construction. New construction generates ground-lease revenues that represent only 20 percent of building revenues. (This assumption is consistent across all EIS alternatives.)

For these reasons, approximately 1.1 million square feet of the 2.8 million non-residential square feet (excluding the LDAC) under the No Action Alternative (GMPA 2000) are assumed to generate minimal or no rental revenues.

In the updated financial analysis conducted for the Final EIS, stabilized non-residential revenues are not reached until all buildings have been rehabilitated, which would occur in approximately 2040 under the No Action Alternative (GMPA 2000). At that point, stabilized non-residential revenues would total roughly $33.0 million. In 2020, non-residential revenues would total $21.4 million, because a substantial number of buildings would not yet be rehabilitated due to insufficient available cash in the preceding years. Therefore, the estimated non-residential revenues for the No Action Alternative (GMPA 2000) in both the Draft EIS and Final EIS analyses are correct based on the rental rate assumptions and estimated timing of building rehabilitation assumed for purposes of consistent modeling of alternatives.

Second, the commentor assumes that all non-residential buildings would be generating revenues between 2011 and 2020. This would require that all non-residential buildings be rehabilitated by 2010, an assumption that cannot be made under the prioritization rules of the model. The financial planning model assumes that only about 50 percent ($139 million) of the $276 million in non-residential rehabilitation would be funded by 2013 under the No Action Alternative (GMPA 2000) based on the revenues available to fund rehabilitation work. Non-residential revenues would not be stabilized until all buildings have been rehabilitated, which would occur in approximately 2035 under the No Action Alternative (GMPA 2000). At that point (approximately 2035), stabilized non-residential revenues would total roughly $18.9 million (not including SDC). In 2020, non-residential revenues would total $14.7 million (not including SDC) because a substantial number of buildings would not yet be rehabilitated, due to insufficient available cash in the intervening years. Therefore, the estimated non-residential revenues under the No Action

Alternative (GMPA 2000) are correct based on the rental rate assumptions and estimated timing of building rehabilitation.

FI-20. *Total Revenue Yield in the No Action Alternative (GMPA 2000)*

Commentors suggest that the No Action Alternative (GMPA 2000) could generate much more revenue if the financial model assumed non-residential market-rate rents. ("[The EIS] also fails to explain why at least some of the types of tenants identified in the 1994 GMPA can't pay more than $9 [per square foot], and it fails to show how much more revenue the GMPA 2000 could generate if just some of the tenants (for example, for retail and lodging uses) paid market-rate rents.") The commentor estimates that the No Action Alternative (GMPA 2000) could generate $51 million annually from non-residential leases, or $23 million more than the total projected in the financial analysis of the alternative in the Draft EIS. Another commentor estimates an even greater annual revenue increase of $26 million per year. "Applying market-rate rents to the GMPA 2000 building space (according to the building-use designations shown in [Draft] EIS Appendix D) would, according to my calculations, produce an average rent of roughly $19 [per square foot per year] – $10 more per [square foot] than the $9 [per square foot in] rent assumed under the GMPA 2000. And $10 times 2.69 million [square feet] is $26 million more potential annual rent."

Response FI-20 – It would have been unreasonable to assume in the financial model that all program-enhancing, mission-related tenants would pay higher rents than the assumed $9 per square foot per year (NNN), as discussed in Response FI-18, above. The 1994 GMPA (page v) encompassed a vision that dictated leasing to a specific tenant mix: "to house a network of national and international organizations devoted to improving human and natural environments." Together, these organizations would create "a global center dedicated to addressing the world's most critical environmental, social, and cultural challenges." Most for-profit businesses do not have a mission statement focused on environmental, social, or cultural causes. Therefore, the tenant mix in the No Action Alternative (GMPA 2000) was assumed to encompass a higher percentage of non-profit organizations, which would more likely further the 1994 GMPA's goals.

Non-profit tenants, often for reasons of affordability, tend to occupy space that cannot command the highest commercial rents (i.e., these organizations occupy bottom-tier Class B and C space at accordingly lower rents). As a result, the No Action Alternative (GMPA 2000) as presented in the Draft EIS assumed a greater percentage of non-profit tenants, at reduced rents, than the other Draft EIS alternatives. To make a fair and meaningful comparison among alternatives, all tenants considered to be mission-related tenants were assumed to pay $9 per square foot per year (NNN) in rent as were all tenants in the cultural/educational land use category. See Responses FI-4 and FI-5 for discussion of the derivation of these rent assumptions.

In actuality, some mission-based tenants will likely pay more or less than $9 per square foot per year (NNN). Thus, $9 per square foot per year is a reasonable assumption – based on available data and expert opinion – that represents an overall average rent for about 820,000 square feet of building area in the No Action Alternative (GMPA 2000), and for different amounts of square footage in other Draft EIS alternatives. It would have been unreasonable to assume that non-profit tenants would pay the same rents as for-profit tenants, who often desire and can pay for higher-quality space at higher rents. It would also have been unreasonable to assume that the Presidio would attract only those non-profit organizations that could pay the same rents as for-profit tenants.

Commentors may have assumed that the revenue yield of the No Action Alternative (GMPA 2000) was unduly low because the Draft EIS (Section 2.5, page 30) reported a high percentage (73 percent) of non-residential space assumed to be leased to GMPA mission-related tenants at $9 per square foot per year. This reported percentage was in error; 34 percent of non-residential space was actually assumed occupied by GMPA mission-related tenants, and the financial results in the Draft EIS reflect revenue yield based on the lower 34-percent assumption. In the Final EIS, due to the factual updates of the PTMP financial model, a slightly lower percentage (24 percent) of non-residential space is assumed to be occupied by GMPA mission-related tenants, yielding revenue at $9 per square foot per year. Other non-residential land uses in the No Action Alternative (GMPA 2000) are assumed to generate market rents for those uses. For example, industrial uses on average pay rents of $12 per square foot per year (NNN), retail uses on average pay rents of $18 per square foot per year (NNN), and lodging uses on average pay rents of $26.75 per square foot per year. (These market rents are assumed consistently across all EIS alternatives.) Thus, although commentors assumed revenues to be unduly low for the No Action Alternative (GMPA 2000) the majority of non-residential space in the alternative is assumed to be leased at the “market rates” applied across all alternatives. Furthermore, the percentage assumed to be leased to GMPA mission-based tenants at $9 per square foot per year in the Final EIS (24 percent) is an assumption that is both consistent with the 1994 GMPA vision and relatively conservative, because space that might otherwise be assumed rented at $9 per square foot per year is already dedicated to today’s long-term leases at higher market rates under the financial model’s factual updates. For these reasons, the revenue yield of the No Action Alternative (GMPA 2000) is neither understated nor unfairly represented in the PTMP financial comparison of alternatives.

FI-21. *Reallocation of Industrial/Warehouse Space in the No Action Alternative (GMPA 2000)*

One commentor suggests that the Trust should reallocate (i.e., convert) industrial/warehouse space in the No Action Alternative (GMPA 2000) to other higher revenue-generating uses in an effort to increase revenues. (“The Trust should reduce the allocation in the GMPA 2000 to warehouse and industrial use as no longer relevant … By reallocating this space to more reasonable higher rent uses…, the GMPA [2000] would receive more revenue.”)

Response FI-21 – The amount of industrial space in the No Action Alternative (GMPA 2000) is based on the land use program as described in the 1994 GMPA. In the Final EIS, the infrastructure land use category was merged with industrial/warehouse space; these uses are very similar and have a low employee-to-square footage ratio. The building uses that fall into this category include general storage and warehouse space, facilities specifically related to the operation of the park’s utilities, public safety facilities, and maintenance functions. The 1994 GMPA EIS identified a total of 800,000 square feet in these combined land use categories. The No Action Alternative (GMPA 2000) refined this number to 580,000 square feet to reflect changed circumstances that had occurred since 1994 (such as the rehabilitation of Building 210 rather than Building 35 as the fire station, and the rehabilitation and reuse of several warehouses for other uses such as the Exploratorium’s offices).

Further, in the No Action Alternative (GMPA 2000), the only non-residential uses that assume higher per-square-foot revenues than industrial/warehouse space are retail and lodging space. The 1994 GMPA offers no rational basis for assuming conversion of its industrial/warehouse space into retail and/or lodging space. As the No Action Alternative (GMPA 2000) represents the 1994 GMPA as closely as possible (i.e., it incorporates the minimum number of changes), the commentor’s suggestion has not been adopted.

FI-22. *Reduction of Capital Costs for the No Action Alternative (GMPA 2000)*

Commentors generally suggest that capital costs are overstated for the No Action Alternative (GMPA 2000) and should be reduced to more appropriate levels (e.g., program capital costs). As a specific suggestion, the Sierra Club asks that the lodging and conference space in the No Action Alternative (GMPA 2000) be substantially reduced and reallocated to other uses to lower rehabilitation capital costs. The Sierra Club and NRDC both suggest that the Trust should not have assumed $10 million in annual capital costs for programs under the No Action Alternative (GMPA 2000). They explain that the 1994 GMPA called for limited capital expenditures for programs, and did not call for the construction of new buildings for programs. The Sierra Club proposes that annual program expenses should be no more than $2 million for the No Action Alternative (GMPA 2000) rather than the $10 million included in the Draft Plan.

Response FI-22 – The unit capital costs applied to the No Action Alternative (GMPA 2000) are the same as those used for all the other EIS alternatives, and overall costs generated by the No Action Alternative (GMPA 2000) land use program vary in comparison to other alternatives. See Response FI-9.

Simply because the No Action Alternative (GMPA 2000) has less total square footage than the other PTMP planning alternatives does not mean that capital costs under this alternative would be much lower. Most park-wide capital costs (e.g., roads, utilities and telecommunications) do not vary significantly by alternative. While some aggregate capital costs (e.g., building rehabilitation costs) in the No Action Alternative (GMPA 2000) are lower compared to other alternatives, others (e.g., demolition and open space costs) are higher. The capital cost modeling assumptions for the No Action Alternative (GMPA 2000) are reasonable ones for the intended purpose of the model, which is to compare planning alternatives, not precisely predict fine-grained capital cost variations among the alternatives.

The amount of lodging and conference space in the No Action Alternative (GMPA 2000) is based as closely as possible on land uses provided in the 1994 GMPA. The 1994 GMPA EIS did not have a specific land use category for lodging and conference, and instead spread these uses between the use fields of Dormitory and Institution. In updating the GMPA for the No Action Alternative (GMPA 2000), the Trust interpreted the text of the 1994 GMPA and assigned that square footage (from the relevant Dormitory and Institution designations) into the PTMP land use category of Lodging and Conference Space. As this is the “No Action” alternative required by NEPA, it would be irrational and arbitrary to change the lodging and conference land use assumptions simply to achieve a reduction in this alternative’s capital costs.

Despite commentors’ claims, the program capital cost assumption in the financial model for the No Action Alternative (GMPA 2000) is rational and reasonable. The Trust agrees with commentors that the 1994 GMPA does not call for construction of new buildings for programs, and the program capital cost assumption does not include new construction costs for the GMPA or any other alternative. Rather, the 1994 GMPA included a number of programmatic ideas (e.g., museum uses, cultural centers, galleries, and exhibition space) that will likely require substantial funding for capital improvements. Several significant programming proposals by the NPS indicate the nature of some of the intended program uses under the 1994 GMPA. Congress recently appropriated funds to the NPS and the Trust to evaluate the feasibility of installing a Pacific Coast Immigration Museum and a National Japanese American Historical Society museum within Area B facilities or elsewhere in the GGNRA. Neither proposal currently carries with it funding for implementation, which of necessity would include capital funds to improve existing building spaces to museum standards. Other ideas offered by the NPS and others as consistent with the 1994 GMPA include a Crissy Field Aviation Museum in the hangars at the west end of Crissy Field and a Bay Area Resources Center to serve as an archive to house archeological artifacts and museum specimens and collections. Again, no outside source of funding has yet been identified by the NPS for these facilities, suggesting that implementation of the GMPA would have required capital funds for associated building rehabilitation.

It is reasonable to assume that these and similar or alternate proposed uses would involve significant capital expenditures to improve existing space (including some historic buildings) to what could be specialized exhibition standards. While much of the funding may come from outside (philanthropic) sources, it is not unreasonable to expect there would be some costs to the Trust. For all of these reasons, it is reasonable to assume for purposes of the PTMP financial planning model that, over the 20 to 30-year modeling horizon, capital funding needs for programs, even under the No Action Alternative (GMPA 2000), would accrue to $10 million. This amount should in no way be viewed as a commitment by the Trust, but as a reasonable assumption of expenditure levels over time if sufficient revenues exist.

Nevertheless, in response to the commentors’ suggestions, the Trust evaluated the impact of reducing program-related capital costs in the No Action Alternative (GMPA 2000) from $10 million to $2 million. The overall impact on the alternative is minimal; the capital program is reduced from $519 to $511 million, and the estimated date of completion of the capital program remains unchanged at approximately 2040. Because of minor shifts in revenues that are generated in earlier years, the estimated completion of the implementation phase is accelerated slightly to approximately 2050 (from between 2050 and 2055 in the baseline scenario). This change is considered negligible when viewed in the context of the financial planning model's purpose, which is to compare EIS alternatives over an extended time horizon.

Relative Financial Performance of Alternatives

FI-23. ***Financial Prudence of the No Action Alternative (GMPA 2000)***

Several commentors express the opinion that the No Action Alternative (GMPA 2000) is the most financially prudent alternative. As the basis for the opinion, they note that it achieves financial self-sufficiency and is financially sustainable over the long term notwithstanding that more than half the building space is assumed to be rented at "below-market" rates. One commentor notes, "I believe this clearly shows how easily the Trust can meet its financial goals under the GMPA 2000." These commentors also suggest that the No Action Alternative (GMPA 2000) meets and exceeds the financial self-sufficiency mandate well before the statutory deadline of 2013. These commentors reason that "to be self-sufficient by 2013 under the GMPA 2000 alternative, the Trust will need annual operating revenues of at least $49.3 million to cover $44.3 million in operating expenses, $2 million in program expenses, and $3 million in financing (interest) expenses. The [Draft EIS financial] spreadsheets project that by 2003, annual operating revenues (exclusive of Congressional appropriations) will exceed $56 million! Thus, the financial self-sufficiency revenue target will be more than met ten years ahead of schedule! And the target will be more than met every year from 2003 on…." These same commentors opine that the No Action Alternative (GMPA 2000) is financially prudent because it is less susceptible to market forces. "All other PTIP alternatives than the GMPA 2000 assume much higher market rate rents, putting them – in my opinion—more at the mercy of market forces."

Response FI-23 – To respond to this comment, the Trust must correct the threshold assertion that, under the No Action Alternative (GMPA 2000), tenants would be charged "below-market" rents. Refer to Response FI-18 for an explanation of why this assertion is inaccurate.

The Trust does not agree that the tenant mix under the No Action Alternative (GMPA 2000) is less susceptible to market forces. Every rent-paying tenant is, to some degree, "at the mercy of market forces," as the recent downturn in philanthropic giving demonstrates (i.e., because it coincides with a general downturn in the economy and will affect the financial strength of the non-profit sector). The Trust believes that the best approach to protect against dramatic economic swings is to lease space to a mix of tenants (i.e., from varying sectors) and negotiate beneficial lease terms with tenants who have demonstrated ability (based on financial history) to pay their rent. To reflect the potential outcome if revenues are less than expected or costs are greater than expected, the Draft EIS financial analysis included (and the Final EIS analysis also includes) sensitivity analyses testing the relative strength of each alternative. These analyses indicate that the No Action Alternative (GMPA 2000) cannot bear significant downturns in market rents and still remain viable. A decrease in non-residential revenues of ten percent and a decrease in residential revenues of 5 percent results in marginal self-sufficiency (i.e., revenues exceed expenses by only $1.1 million in 2013). The capital program would be completed between approximately 2045 and 2050, and reserves would not be funded until approximately 2100. See Draft EIS Appendix J, page 10.

There are other reasons why the Trust does not agree with the commentor's characterization of the No Action Alternative (GMPA 2000) as the "most financially prudent" alternative. The No Action Alternative (GMPA 2000), as modeled in the Final EIS, would be financially self-sufficient in that by 2013 revenues are projected to exceed operating expenses by $3.8 million. The alternative would continue to experience a similar slim operating margin between 2013 and 2020, and there would be minimal cash available to fund rehabilitation of other revenue-generating buildings. It is difficult to characterize an operating margin of $3.8 million on annual expenses of $45 million as the most financially prudent operating situation, relative to the other PTMP planning alternatives. This is especially true given the magnitude of capital improvements necessary to revitalize the park. Because the Trust is limited in its borrowing capacity, the money to rehabilitate buildings and complete park-wide capital projects under the No Action Alternative (GMPA 2000) would come from ongoing net cash flow. The smaller the operating margin, the longer the time required to complete the capital program – thereby lengthening the time the park might be exposed to future negative shifts in market forces or other unforeseen events. As of 2020, when there would be approximately $6 million annually in net cash flow, there would still remain $245 million in unfunded capital projects. The model assumes that all available cash will fund capital projects until all capital projects are completed. As a result, the capital program would not completed for almost 40 years (i.e., not until approximately 2040), ten to 25 years later than under other alternatives.

Additionally, some commentors misinterpret the financial modeling information and conclude that the No Action Alternative (GMPA 2000) achieves financial self-sufficiency 10 years ahead of schedule. The congressional self-sufficiency mandate requires that the Trust generate revenues exceeding annual operating expenses in 2013 and beyond. Because modeling of the No Action Alternative (GMPA 2000) shows projected expenses in 2013 to be $47.8 million and revenues generated in 2003 to be $67.4 million, some commentors believe the Trust will have achieved self-sufficiency 10 years ahead of schedule under this alternative. This is not the case. The 2003 revenue figure includes $22.5 million in appropriations and $11.5 million in revenues associated with Wherry Housing, which is scheduled for demolition. In actuality, in 2003, the "long-term revenue base" (revenues that do not terminate) would be only $33.4 million, well below the $47.8 million necessary to meet, much less exceed, expenses and achieve self-sufficiency. This "long-term revenue base" for the No Action Alternative (GMPA 2000) is not estimated to exceed the 2013 operating expense until 2012.

FI-24. *Financial Feasibility of the Sierra Club Proposal*

The NRDC and the Sierra Club state that, based upon evaluating the Sierra Club proposal with a financial model, methods, and assumptions said to be similar to those used by the Trust, the Sierra Club's proposal is financially feasible and substantially better than the Trust's proposed Plan. The Sierra Club concludes that its proposal is financially viable, achieves self-sufficiency before 2013, completes the entire capital program seven years before the Draft Plan Alternative, and generates positive cash flow in 2005 (with a cumulative cash flow that exceeds what is projected for the Draft Plan by $100 million). The Sierra Club also reasons that revenues under its proposal would be approximately the same as under the Draft Plan because non-residential revenue reductions would be offset by increases in parking revenue, operating expenses would be substantially lower because of cost controls and reduced funding for programs, and capital expenses would be lower because of decreased funding for programs and a reduced rate of infrastructure improvements.

Response FI-24 – In response to this comment, the Trust (1) evaluated the Sierra Club's methodology and analysis of its proposal, and (2) evaluated the relative financial performance of the Sierra Club's proposal, now included in the EIS as the Final Plan Variant, using the PTMP financial model that was used to compare all other EIS alternatives. First, the Trust asked Sedway Group, the Trust's real estate consultants who developed and worked with the PTMP financial planning model throughout the PTMP planning process, to review the Sierra Club's financial analysis of its proposal, referred to by the Sierra Club as the "revised GMPA alternative." Sedway Group evaluated the methodology and financial assumptions used by the Sierra Club. Because not all details of the Sierra Club's 20-year cash flow analysis and financial assumptions were made explicit in the information submitted to the Trust, Sedway Group's evaluation is based only on the explicit information presented in the text and footnotes of the Sierra Club's proposal and analysis. The following text summarizes Sedway Group's evaluation:

Problems with Overall Methodology

The PTMP financial planning model was designed to compare, as accurately as possible, the hypothetical financial performance of different land use programs at the Presidio. In other words, the financial model was designed as an illustrative "planning" tool to test the comparative economic implications of different conceptual proposals for the Presidio. It was not designed to be used to predict financial outcomes with certainty or to predict with precision operating costs, capital costs, or revenues over a 20 to 30-year planning horizon. Thus, for the modeling results to be meaningful, it was important to keep certain key assumptions consistent across all planning alternatives. In this case, it appears that the Sierra Club has blended the financial results from several planning alternatives in an effort to present what it believes are the financial implications of its proposal.

The cash flow presented as the Sierra Club's "revised GMPA alternative" is really an amalgamation of assumptions from the Draft EIS version of the Draft Plan Alternative, the No Action Alternative (GMPA 2000), and the Sierra Club's own proposal (i.e., new assumption). Because it is an amalgamation, the financial analysis of the Sierra Club proposal cannot be compared to any one of the other PTMP alternatives in any meaningful way. To illustrate this point, Sedway Group has displayed the key line items in the Sierra Club proposal's financial analysis and the source of the assumption underlying those key line items in the table below:

Cash Flow Line Item	Source of Assumption
Revenues	
Non-Residential Building Revenues	Adapted from Draft Plan Alternative
Residential Building Revenues	Same as Draft Plan Alternative
Utilities/Telecom	Similar to No Action Alternative (GMPA 2000)
Parking Revenues	New Assumption
Capital Costs	
Non-Residential Building Capital Costs	Same as Draft Plan Alternative
Residential Building Capital Costs	Same as Draft Plan Alternative
Non-Building Capital Items (Infrastructure)	New Assumption
Program Capital Costs	New Assumption
Demolition Costs	
Non-Residential Demolition Costs	Same as No Action Alternative (GMPA 2000)
Baker Housing Demolition	Same as Draft Plan Alternative
Residential Demolition (Excluding Baker)	Same as Draft Plan Alternative
Parkwide Expenses	
Facilities, Legal, Planning, Real Estate	Updated From Fiscal Year 2002 Budget
Operations	New Assumption
Reserves, Events, Public Safety, Finance/Insurance	Same as No Action Alternative (GMPA 2000)
Programs	Same as No Action Alternative (GMPA 2000)
Parking (Transit)	New Assumption
Other Expenses	
Financing	Same as Draft Plan/No Action Alternative (GMPA 2000)
Residential Affordability Subsidy	Same as No Action Alternative (GMPA 2000)
Miscellaneous	Same as Draft Plan/No Action Alternative (GMPA 2000)

As the above table illustrates, an "apples-to-apples" comparison between the Sierra Club proposal and any single EIS alternative is problematic at best. By amalgamating assumptions and outcomes from several planning alternatives, the Sierra Club has developed a 20-year cash flow that cannot be compared meaningfully to the 20-year cash flows of any of the other planning alternatives.

Further, based on the details and assumptions the Sierra Club presented, the 20-year cash flow analysis does not accurately represent the land use plan and policies of the Sierra Club proposal. The most obvious example of this is stated in the Sierra Club's written text. The Sierra Club proposal states the intention to forego the Letterman Complex project, but it includes revenues from the LDAC project in the cash flow analysis. One cannot "pick and choose" either financial or land use numbers from different planning alternatives and declare that they accurately reflect a detailed alternative land use plan. In order to accurately represent the financial implications of the Sierra Club proposal, the proposal must be modeled in the same way (i.e., using the same methodology and consistently with) the other planning alternatives.

Also, the Sierra Club's 20-year cash flow ignores the issue of timing. In the financial planning model, explicit and consistent assumptions are made about the phasing and timing of capital investments. The model assumes capital investments are made based on the availability of cash, which in turn generates revenue to fund additional capital investments. Therefore, each PTMP planning alternative uses only the revenues available from its own unique land use program to fund further investments over time. In this sense, each alternative has its own unique estimated schedule for completing investments, depending on the rate at which revenues are generated. As such, the Sierra Club cannot assume or "borrow" the timing of revenue growth and the schedule of capital cost completion from other planning alternatives for use in its proposal. For example, it is unreasonable and inconsistent with the planning model's timing assumptions and methodology simply to assume that the Sierra Club proposal would generate 90 percent of the non-residential revenues of the Draft Plan Alternative.

Problems with Specific Assumptions: Revenues[13]

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[13] The Sierra Club's proposal claims to generate $241.3 million more in total revenues over 20 years than the No Action Alternative (GMPA 2000), and claims to accomplish this with about 355,000 fewer square feet of building space.

Non-Residential Building Revenues: The Sierra Club calculates non-residential building revenues for its proposal by assuming 90 percent of the non-residential building revenues of the Draft Plan Alternative. This assumption was made because the Sierra Club's building square footage total (excluding "Residential," "Trust/NPS," and "Other" space but including LDAC) is approximately 90 percent of the Draft Plan Alternative's square footage total, given a roughly similar mix of uses.[14]

This assumption is not justified because the Sierra Club proposal, although similar to the Draft Plan Alternative in its overall mix of uses, does not include the same level of revenue-generating uses as the Draft Plan Alternative. For example:

1. *The Draft Plan Alternative includes revenues from the LDAC and the Sierra Club proposal calls for the elimination of LDAC.* The Sierra Club proposal assumes 90 percent of the Draft Plan Alternative's non-residential revenues, but those revenues include about $92 million (over 20 years) from the LDAC project. In its narrative, the Sierra Club states: "The Sierra Club plan calls for an end to negotiations with Lucas Films and abandoning the large private development in the park."[15] Thus, it does not seem reasonable for the Sierra Club to include LDAC revenues in the financial analysis of the Sierra Club proposal. In fact, including Service District Charges (SDC), the LDAC project was estimated in the Draft EIS to generate about $137 million over 20 years, which represents nearly 30 percent of all non-residential building revenues and SDC in the 20-year Draft Plan. Thus, the Sierra Club analysis is inappropriately including about 90 percent of the $92 million in non-residential building revenues and $45 million in SDC revenues generated over 20 years by the LDAC project.

2. *The Sierra Club Proposal emphasizes mission-enhancing tenants that may or may not be able to pay market rents.* The Sierra Club proposal emphasizes a different mix of tenants for the office space at the Presidio. The Sierra Club proposal calls for "all tenants to serve the mission of the Presidio national park, not private gain."[16] As described by the Sierra Club, these tenants should contribute to the vision of creating a global center dedicated to addressing the world's most critical environmental, social, and cultural challenges. Nevertheless, the Sierra Club proposal reserves only 25 percent of the total office space for non-profit tenants. It is assumed that the rest of the office space would generate market-rate office revenues. While some of these tenants may very well be able to pay market office rents (using their own funds or outside philanthropic sources), it seems unreasonable to assume that all of these tenants would be able to pay market rents, and thus the Sierra Club's financial model is inconsistent with the stated policy objective. Refer to Responses FI-4 and FI-18 for a discussion of market rents for non-profit space.

Residential Building Revenues: The Sierra Club financial model assumes the same amount of residential building revenues as is assumed for the Draft Plan Alternative. This assumption is made despite the fact that the Sierra Club proposal calls for less residential square footage and fewer units. Specifically, the Sierra Club plan calls for eliminating 489,000 square feet and 320 units.[17]

Under the Draft Plan Alternative, the average residential square foot generates about $260 a year and the average unit generates about $305,000 a year. Under the Sierra Club proposal, the average residential square foot generates about $347 a year (an increase of nearly 35 percent) and the average unit generates about $378,000 a year (an increase of nearly 25 percent). In its document, the Sierra Club fails to explain why residential units in its proposal

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[14] A more appropriate way to "scale" the revenue stream is to use a weighted average rent-per-square-foot figure. Sedway Group developed a detailed spreadsheet that calculated the weighted average rent-per-square-foot for all new and existing space (excluding LDAC) under the two scenarios. The result was that both figures were roughly similar. However, the Sierra Club's 90-percent assumption is flawed for other reasons, which are outlined later.

[15] Comments on the Presidio Draft PTIP/EIS, Executive Summary, page 2.

[16] Comments on the Presidio Draft PTIP/EIS, Executive Summary, page 1.

[17] Comments on the Presidio Draft PTIP/EIS, pages 5, 6, 14 and 18.

are generating so much more revenue than they are in the Draft Plan Alternative.

Parking Revenues: The parking revenue assumption in the Sierra Club proposal is new (i.e., developed by the Sierra Club) and does not appear in any of the other PTMP planning alternatives. According to the Sierra Club proposal financial projections, the Sierra Club's parking plan would generate $65 million for the Trust over 20 years. This money is generated by charging all employees who drive to the Presidio (excluding employees of LDAC) a fee of either $7 per day or $140 per month.[18] In the Sierra Club proposal financial model, this fee equates to between $3.0 million and $4.5 million a year between 2006 and 2020.

Even with a deduction of $40 million in "transit" expenses, the Sierra Club model still includes *about $25 million in pure profit* from the Presidio's overall parking/transit program. Charging such a high parking fee and accumulating such a large profit are unreasonable assumptions. The Trust is committed to parking management (including parking fees) as a strategy to reduce auto use; however, parking fees must be applied in a way that will not jeopardize the leasing of buildings.

Charging companies a parking fee as high as $7 per day would be a strong competitive disadvantage for the Presidio. Surface parking lots on the fringe of downtown San Francisco currently charge between $6 and $12 per day. The "market rate" for parking at the Presidio is less, given its more isolated location and relative lack of public transportation. High parking fees would likely deter many potential tenants from locating at the Presidio. In fact, rental rates would likely have to be reduced in the PTMP financial model if the Sierra Club's parking program were adopted, since the vast majority of tenants located outside San Francisco's central business district do not pay both market rents and parking fees. In addition, it is doubtful that the majority of non-profit tenants would be able to pay both market rents and $1,680 per year per employee to park at the Presidio, as is currently assumed in the Sierra Club financial model.

The assumption of parking revenues is not only suspect because of the "market rate" assumed, but also because the non-residential parking management is controversial, and will therefore have to be implemented in phases over time, resulting in far less in accumulated revenues than is assumed by the Sierra Club. Also, the assumption that revenues will exceed amounts required to fund parking, transit, and other transportation improvements as called for in the Final Plan is unrealistic. These issues are discussed further in the PTMP Financial Model Assumptions and Documentation binder (Tab 18) dated May 2002 and in responses to parking issues.

Problems with Specific Assumptions: Costs

Non-Residential Building Capital Costs: The Sierra Club assumes the same non-residential building capital costs as those assumed in the Draft Plan Alternative. In the Draft Plan Alternative, about 2.46 million square feet of existing non-residential space are assumed to be rehabilitated or converted to specific uses. In the Sierra Club proposal, about 2.31 million square feet are assumed to be rehabilitated, a difference of about 153,000 square feet. Thus, the non-residential building capital costs may be slightly overstated in the Sierra Club proposal 20-year cash flow.

The Sierra Club analysis also assumes that residential building capital costs are the same as they are in the Draft Plan Alternative despite very different scenarios of residential conversions. In the Draft Plan Alternative, about 1.53 million square feet of residential space are rehabilitated or converted to residential uses, whereas in the Sierra Club proposal, about 1.45 million square feet are rehabilitated or converted to residential uses, a difference of about 83,000 square feet. The real difference between the Club's proposal and the Trust's lies in the significantly higher number of residential conversions in the Sierra Club proposal than are assumed in the analysis of the Final Plan Alternative. Residential conversions are substantially more costly than standard residential rehabilitations. The Final Plan Alternative financial analysis assumes 360 residential units are created by either subdividing existing units or converting non-residential space into residential space. In the Sierra Club proposal, 500 residential units are created in this same manner. Thus, 140 more residential units are created by subdivision and/or conversion

[18] Comments on the Presidio Draft PTIP/EIS, pages 29 and 46.

in the Sierra Club proposal, equating to approximately $28 million in conversion costs. This additional cost is not accounted for in the Sierra Club proposal 20-year cash flow.

The Sierra Club's analysis of infrastructure costs is also flawed. The Club adapts non-building capital costs (infrastructure) in its proposal from the Draft Plan Alternative. In essence, the Sierra Club reduces these costs by about 20 percent to reflect the lower amount of square footage in the park under its proposal and spreads the costs over the first 25 years of the planning model, instead of the first 20 years of the planning model, as is assumed in the No Action Alternative (GMPA 2000).[19] By making these assumptions, the Sierra Club asserts that the 20-year cumulative cost can be reduced by about $22 million (or about $1.3 million a year).

The Sierra Club's assumption to adapt the Draft Plan Alternative infrastructure costs and use the adapted figure as a proxy for infrastructure costs for the Sierra Club proposal is not reasonable. Non-building capital items include the costs of developing the Presidio's open space, not just the costs of developing the Presidio's roads, telecommunications, and utilities (i.e., its urban infrastructure). In the PTMP financial model, the cost of developing the Presidio's urban infrastructure is the same across all planning alternatives, while the cost of developing the Presidio's open space varies across alternatives, depending on which currently-built areas are scheduled for natural space restoration. Thus, the Sierra Club is making a new assumption by stating that the cost of developing the Presidio's urban infrastructure varies by alternative.

Regardless of whether the Trust agrees with this assumption, the Sierra Club is not properly accounting for non-building capital costs outlined in its proposal, within the limits of the comparative model. The Club did not provide details of cost assumptions for its policies and land use plan for open space. The scope of open space enhancement seem at least similar to, and possibly greater than, the Final Plan Alternative, in which open space costs for natural areas total approximately $46 million under the model. The Trust estimated the capital costs associated with the open space policies suggested in the Sierra Club proposal despite the lack of detail from the Club concerning its assumption. This open space enhancement capital cost figure, estimated at $46 million, is incorporated in the financial analysis of the Final Plan Variant. The summary results of the evaluation of the Final Plan Variant are outlined in the "PTMP Financial Model Results" sub-section below.

The Sierra Club's assumption for program capital costs is also a new assumption, not found in any of the other PTMP planning alternatives. The Sierra Club model entirely eliminates the $10 million in program capital costs that are assumed in all the PTMP planning alternatives. This assumption seems unreasonable for the reasons articulated in Response FI-22.

Park-Wide Expenses: The footnote explaining park-wide expenses in the Sierra Club proposal 20-year cash flow states: "2002 parkwide expenses based on FY 2002 budget, FY 2003 estimate based on detailed analysis." However, this "detailed analysis" was not explained further.

The following discussion review assumptions regarding specific line items of park-wide expenses.

- *Facilities, Legal, Planning, Real Estate, Operations:* The expense totals for these line items are the same in the Draft Plan Alternative and the No Action Alternative (GMPA 2000). The Sierra Club's expense totals are significantly lower. In addition, the Sierra Club proposal incorporates parkwide-expense estimates from the Trust's Fiscal Year 2002 (FY 2002) budget with the exception of the Operations line item, and for that line item, the Sierra Club proposal shows a reduction from $11.5 million in FY 2002 to $8.4 million in FY 2003. This reduction was not explained in the footnotes or the text of the Sierra Club proposal, and appears to have little basis.

- *Reserves, Events, Public Safety, Finance/Insurance:* The expense totals for these line items are the same in the Draft Plan Alternative and the No Action Alternative (GMPA 2000), with the exception of releasing reserves. Releasing reserves are about $2.3 million lower in the No Action Alternative (GMPA 2000). The Sierra Club proposal expense totals assume the lower releasing reserves figure from the No Action

[19] Comments on the Presidio Draft PTIP/EIS, page 28.

Alternative (GMPA 2000). Again, no explanation is provided in the footnotes or the text.

- *Parking (Transit):* The Sierra Club proposal includes a new assumption about transit expenses. The Sierra Club's 20-year cash flow includes $40 million in transit expenses, which presumably support the Sierra Club's overall Transportation Demand Management (TDM) program. How this $40 million expense is derived is not explained. As noted earlier, the Sierra Club's assumption of $25 million in pure profit over 20 years (or $1.25 million a year) from the Presidio's overall parking/transit program is unsupported and seems implausible given the Presidio's relatively isolated location and its lack of public transportation, as well as other factors articulated above.

PTMP Financial Model Results

Due to the weaknesses of the Sierra Club's independent financial analysis, as outlined above, the Trust was unable to rely upon the Club's cash flow analysis. Instead, in order to provide an "apples-to-apples" comparison of the financial implications of the Sierra Club proposal and financial assumptions, the proposal was modeled using the PTMP financial model and modeling assumptions consistent with those of the other planning alternatives. Because the Sierra Club's land use program was most similar to the Final Plan Alternative (but without any new construction), the Sierra Club proposal has been named the Final Plan Variant. The details of the Sierra Club's land use program and key assumptions of the Final Plan Variant can be found in Volume I of the Final EIS, Section 2.6.

The Final Plan Variant was found to be financially self-sufficient and sustainable over the long term. The $614 million capital program is estimated to be completed in approximately 2035 and the implementation phase is estimated to be completed in approximately 2045. The capital program for the Final Plan Variant is the highest of all alternatives due primarily to the emphasis on converting space to small residential units, which accounts for more than 30 percent of the capital program. The Variant requires a longer period relative to other alternatives to complete the capital program and reach a stabilized financial state (i.e., only the No Action Alternative (GMPA 2000) period is longer). Also for comparison purposes, the implementation phase in the Final Plan Variant is roughly 15 years longer (i.e., extends to approximately year 2045) than the implementation phase in the Final Plan Alternative (i.e., extends to year 2029).

FINANCIAL SELF-SUFFICIENCY

FI-25. ***Progress Toward Self-Sufficiency***

Several commentors suggest that the financial model demonstrates that the Trust will readily and easily achieve self-sufficiency by 2013. One commentor states, "The local press has … labored under serious misunderstandings about the Presidio, especially concerning the Trust's finances. Many news stories have suggested that achieving self-sufficiency by 2013 will be a 'nearly impossible' task, but the spreadsheets in the Draft EIS project that this will be no problem at all! …. Why wouldn't the Trust proudly explain to the media that you're already very close to meeting the FY 2013 "self-sufficiency" target income?" In part, to support their claims, these commentors look to the Trust's budgets, which in 2001 showed $38 million in operating income (not including the lump sum payment from Lucasfilm) and more than $35 million from rental operations (e.g., rent, utility and telephone fees, and Service District Charges). Commentors also urged the Trust to pursue only those revisions to the 1994 GMPA needed to ensure the most fundamental level of self-sufficiency. One commentor states, "It has been well-established by various interested and involved citizens groups that the Presidio has enough potential revenue, based on present facilities, to make it self-sufficient and more by 2013, assuming the continuing refurbishing and rental of existing space. This should now be beyond debate." It is suggested that neither extensive new development nor significant increases in employment or housing are necessary for financial self-sufficiency.

Response FI-25 – It is not possible at this time to conclude that the Trust is "already very close to meeting the FY 2013 'self-sufficiency' target income." Several sources of revenue in the Fiscal Year 2001 and Fiscal Year 2002 budgets are temporary revenue sources (i.e., they are not revenue sources that will continue to be available to fund the revitalization of the Presidio over time). These temporary revenue sources include:

- Annual congressional appropriations (between \$16 million and \$23 million through 2012)
- Treasury borrowing (\$21 million in 2001 and \$15 million in 2002)
- Wherry Housing revenues (\$11.5 million annually) and
- Miscellaneous revenues (\$5.3 million in 2001 and \$4.6 million in 2002)

In fact, revenue sources that will exist over the long term total only \$23.6 million in 2001 and \$27.2 million in 2002. To meet the self-sufficiency threshold, long-term revenues must exceed annual operating expenses in 2013 and every year thereafter. Using the conservative assumptions in the financial planning model, long-term revenue sources are not estimated to exceed expenses until at least 2008 under the Final Plan Alternative. This estimated outcome would only be accurate if all of the projected revenues, costs, and expenses actually came to pass exactly as assumed – an unlikely occurrence given the number of economic, timing, and other uncertainties associated with implementation.

Achieving financial self-sufficiency cannot be understood as merely covering annual operating expenses in 2013. The congressional self-sufficiency mandate requires that the Trust maintain stewardship of the park over the long term, and this includes ensuring the revenue-generation capacity to pay for the building and park-wide improvements (estimated at about a half a billion dollars) necessary to revitalize the Presidio. The Trust cannot fund these improvements, either at all or within a reasonable timeframe, if revenues just barely exceed operating expenses in 2013 (i.e., the most fundamental level of self-sufficiency). For example, if, in 2013, revenues exceed operating expenses by only one to two million dollars, there would be very few dollars available to fund park revitalization projects, which are estimated to remain 40 to 50 percent incomplete as of 2015. Furthermore, operating on such a slim margin would increase the risk that, in the event of major downturns in the market or other unforeseen events, the preservation, protection, and enhancement of park resources would be more difficult or unreasonably delayed. In other words, operating on too small a margin may place the park stewardship mandate in jeopardy.

In sum, the financial uncertainty and variability inherent in the 30-year model is not apparent in the financial spreadsheets and summary results presented for the PTMP alternatives, and reviewers have misinterpreted and used them for purposes for which they were not intended. The PTMP financial model reveals that there are many different land use plans with the capacity to meet the financial self-sufficiency mandate. The sensitivity analyses now presented in Appendix K of the Final EIS serve to demonstrate that changing even one financial or implementation variable can significantly alter the financial performance of an alternative. When multiple factors are varied simultaneously, the financial performance becomes even more uncertain. The Trust therefore believes it will best serve the Presidio's overall goals by not treating the financial mandate as "no problem at all."

In response to the comment that neither "extensive new development nor significant increases in…housing" may be needed for self-sufficiency, the Trust's Final Plan calls for neither. It reduces development park-wide, allows for no more than the currently existing number of housing units, and considers replacing some removed units with new ones in already developed areas of the park over the life of the Plan. These actions may indeed not be absolutely necessary to achieve self-sufficiency, but they may be desirable in order to achieve other resource protection and planning policy goals.

FI-26. *Desired Level of Self-Sufficiency*

Several commentors urges the Trust to pursue only those revisions to the 1994 GMPA needed to ensure the most fundamental level of self-sufficiency. One commentor states, "It has been well-established by various interested and involved citizens groups that the Presidio has enough potential revenue, based on present facilities, to make it self-sufficient and more by 2013, assuming the continuing refurbishing and rental of existing space. This should now be beyond debate. It appears to us that you want to do more out of some notion of 'enhancing our lives'". Echoing this statement, another commentor states, "We don't want you to try to 'make a difference' in our lives, just preserve and enhance the Presidio as is." It is suggested that neither extensive new development nor significant increases in employment or housing are necessary for financial self-sufficiency.

Response FI-26 – The congressional mandate for the Presidio requires that the Trust pay for its operations and revitalization (i.e., capital investments) without ongoing federal appropriations. This mandate requires the Presidio to be financially self-sufficient in 2013 (i.e., annual revenues must exceed annual operating expenses). This mandate also requires the Presidio to generate sufficient revenues to fund the significant investment required to revitalize the park (e.g., investments in buildings, infrastructure, and open space). This concept has been defined by the Trust as "financial sustainability." Financial self-sufficiency in 2013 does not ensure financial sustainability, as described in Chapter Four of the Final Plan.

The financial planning model estimates that roughly 50 to 60 percent of the capital program in each PTMP alternative will be completed by 2013. Therefore, a substantial amount of capital improvements will still need to be completed after 2013 in each PTMP alternative. If the Trust met the financial self-sufficiency mandate in 2013 with only a slim operating margin, the financial sustainability of the park would be extremely vulnerable to major downturns in the market or unforeseen events that could have a negative impact on park finances. The Trust seeks a land use plan that can achieve both financial self-sufficiency and financial sustainability. Maintaining an extremely narrow margin of self-sufficiency could very possibly prevent the Trust from satisfying the self-sufficiency mandate over time due to the lack of capacity to generate sufficient revenues to fund the significant investments required to revitalize the park (e.g., investments in buildings, infrastructure, and open space). These investments are necessary if the Trust is to, as the commentor suggests, "just preserve and enhance the Presidio as is."

FI-27. *Cost Controls*

Several commentors suggest that the Trust should reduce its capital costs and operating expenses (including program expenses) across the board in all of the PTIP planning alternatives. One commentor states, "[T]he plan's failure to control operating and capital costs is inconsistent with the financial mandate." Another commentor states that the Trust should analyze alternatives that propose financial solvency by significantly reducing yearly costs of infrastructure, buildings, administration, and development. Commentors also emphasize cost control measures. Because the Trust is governed by a self-sufficiency mandate, one commentor suggests that the Trust implement cost control measures that hold operating expenses to "the minimum necessary to operate and maintain the minimum level of buildings in the park … and should not exceed $48 million in 2003 and beyond."

Response FI-27 – In response to commentors who urge the Trust to reduce the annual operating expenses, the Trust has done exactly that and will continue to look for and implement ways to control costs in the future. The operating cost assumptions of the model were developed in Fiscal Year (FY) 2000 (when PTMP planning started) and were based on the Trust's approximately three years of actual operating experience. In its start-up years, the Trust's operating expenses were relatively high as the Trust moved aggressively to build an organization that could expedite preventative maintenance and tackle the backlog of the most pressing park improvements. In FY 2002, the Trust began a restructuring effort and has cut overall operating expenses in FY 2003 by 12.4 percent. The financial planning model does not incorporate these projected cuts, because they are still subject to the FY03 budgeting process, but does assume operating costs are reduced over time – specifically by 10 percent at each of three different junctures over 30 years.

As indicated in Chapter Four of the Final Plan, the Trust will look to a variety of techniques to monitor and control costs during Plan implementation, including value analysis and value-engineering techniques. For example, functional analysis and cost evaluation will be applied to achieve the lowest cost, one that is consistent with required environmental and energy performance, reliability, quality, safety, and resource protection. Also, construction and operational cost estimates will be reviewed throughout the planning and development processes to avoid excessive, unwarranted, or unnecessary costs. Further, many activities will be outsourced, and competitive bidding will ensure some level of cost control. Thus, in practice, the Trust has embraced commentors' suggestions to control and reduce park operating expenses, and will continue to do so during Plan implementation.

FI-28. ***Contribution of Letterman Digital Arts Center (LDAC) to Self-Sufficiency***

Several commentors suggest that the development of the 23-acre Letterman site is financially unnecessary because the ground rent is not needed for financial self-sufficiency. States one commentor, “The Trust should abandon the project and pay whatever contractual penalties may be required because these penalties will be offset by the environmental benefits of abandoning the project. Penalties would also be offset by ‘savings in infrastructure costs budgeted during construction and in the future.’” Several commentors suggest that self-sufficiency could still be achieved without LDAC revenues if parkwide revenues were increased, operating expenses were reduced, and program expenses were reduced. States one commentor, “The project is not needed for self-sufficiency, given astute, thoughtful and minimalist management of the Presidio.” Some suggest simply increasing non-residential rental revenue to make up for the lost LDAC revenues (assuming the Trust bought its way out of the contractual agreement with Lucasfilm).

Response FI-28 – Commentors misunderstand the status of the LDAC project. It has been the subject of its own planning process and environmental impact statement. The former buildings on the site have been removed, and construction will begin shortly. Refer to Responses EP-16 through EP-20. Also, the most important reason for pursuing and finalizing project proponent selection and moving forward with implementation of the project shortly after formation of the Trust was the Project’s substantial contribution to the Trust’s financial self-sufficiency.

The commentors are mistaken that the LDAC revenues are unnecessary for the park’s financial viability. In response to comments, and to test the assertion in the context of the proposed PTMP alternatives, the Trust undertook a sensitivity analysis that eliminated revenues and costs associated with the LDAC project from the model’s assumptions for the Final Plan Alternative, the Final Plan Variant (which incorporates the Sierra Club) and the No Action Alternative (GMPA 2000). The LDAC agreement will generate substantial revenue for the Trust (about $8.7 million a year or about $215 million over 30 years). Eliminating these revenues (and the costs associated with the development) would have a significant negative impact on the financial performance of all three alternatives.[20]

Under this scenario, the Final Plan Alternative would perform at marginal self-sufficiency between 2015 and 2029. In 2013, the operating margin (total revenues less total operating expenses) would be only $3.1 million, and $215 million or only about 37 percent of capital projects would have been completed. The time required to complete the capital program would be extended considerably, from 2025 to approximately 2055. The time required to fully fund reserves would also be extended considerably, from 2029 to between 2070 and 2075. Finally, during the years in which the park is projected to be operating on a slim margin (i.e., between 2015 and 2029), the financial viability of this alternative would be highly vulnerable to significant downturns in the economy or other negative forces beyond the control of the Trust. Thus, without the LDAC revenues, the Final Plan Alternative would be only marginally self-sufficient and would not be financially sustainable over the long term. In 2013, the operating margin (total revenues less total operating expenses) is only $3.1 million, and the alternative performs at a slim operating margin for almost 15 years (between 2015 and 2029). Only about a third of the park’s capital improvements are completed. The time required to complete these improvements is extended by 30 years (from 2025 to 2055) and stabilized financial state is not reached until between 2070 and 2075.

Under the same scenario, neither the Final Plan Variant nor the No Action Alternative (GMPA 2000) would be financially self-sufficient or sustainable. Eliminating about $8.7 million per year or $215 million over 30 years (and the associated costs of development) would have a significant negative impact on the Final Plan Variant. Without the LDAC revenues, the Final Plan Variant would not reach self-sufficiency by 2013: operating expenses would exceed revenues by $3.3 million that year. Similarly, without the LDAC revenues, the No Action Alternative (GMPA 2000) would not reach self-sufficiency by 2013 because operating expenses would exceed revenues by $14 million in

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[20] The financial impact on the other PTMP land use alternatives would be equally significant.

2013, and the alternative would not be financially sustainable over the long term.

Overall, results of this sensitivity analysis suggest that the revenues associated with the LDAC are critical to the Trust's ability to achieve financial self-sufficiency and financial sustainability, as mandated by the U.S. Congress.

MISCELLANEOUS FINANCIAL COMMENTS

FI-29. *Philanthropic Contributions in the PTMP Financial Analysis*

Several commentors suggest that the Trust should include in its financial analysis the potential for philanthropic contributions, such as those from other government agencies, volunteer organizations, and non-profit partners. These contributions, the commentors suggest, could supplement revenues and reduce the need for revenue generation from "new development." States one commentor, "Financial and management strategies examined should have been based more broadly on a range of creative but realistic funding concepts and sources than simply on exclusive reliance on funding from the market valuation of the Presidio's existing real estate assets." Specific projects cited as potential recipients of philanthropic support include the Fort Scott Institute (an estimated $35 million in rehabilitation costs), general building rehabilitation for programs related to the GMPA vision (estimated at $50 million), the Montgomery Street barracks rehabilitation (estimated at $10 million per building), the Crissy Marsh expansion, and the Tennessee Hollow restoration (estimated at $20 million).

Response FI-29 – For the same reasons that the Trust declined to include philanthropic contributions in the financial planning model in response to scoping comments, it is again declining to change this financial planning modeling assumption. The financial model and its assumptions are guided by the principle of conservatism. Basing the alternatives' financial performance on the assumed receipt of donations, when there is no actual commitment of funds, is inconsistent with the model's principle of conservatism.

The Trust has not yet developed a philanthropic strategy, but is committed to doing so in the future to implement important policy goals of its Plan. It is therefore too early to make reasonable assumptions about philanthropic revenues and include them in the financial planning model. Refer also to Response PR-21.

The continued suggestion to include philanthropic revenues in the financial modeling of PTMP alternatives indicates a misunderstanding of the PTMP financial model. The model was designed for comparative purposes. Its assumptions, as long as they are reasonable and consistently applied, allow a meaningful comparison among different planning alternatives. Its revenue assumptions are not meant to indicate future revenue targets, budgets, or financial policies. This is equally true for philanthropy revenues. Philanthropy will be sought as part of Plan implementation, as indicated in the Final Plan. Omitting philanthropy revenues from the model in no way affects the comparison of alternatives.

FI-30. *Format of Financial Results in the Final EIS*

A few commentors suggest that the Trust adopt a different format to present the financial results in the Final EIS. Specifically, they suggest that the Trust's annual operating budget be presented separately from non-operating revenues and separately from the capital improvement project budget. States one commentor, "I believe this would make your financial projections far more understandable for the public."

Response FI-30 – The Trust sees no need to alter the presentation format of the financial results. The financial results presented in the Draft EIS and the Final EIS do in fact separate the Trust's annual operating budget from non-operating revenues (such as appropriations and borrowing) and capital improvements. The detailed cash flow spreadsheets for each PTMP planning alternative show line items for park-wide expenses (i.e., facilities, legal, planning, real estate, operations, releasing reserves, special events, public safety, finance and insurance, programs, and parking); separate line items for non-operating revenues (i.e., appropriations and borrowing); and further line items for capital improvements (i.e., non-residential building capital costs, residential building capital costs, non-building capital items, program capital costs, non-residential demolition costs, Wherry Housing demolition, and other residential demolition). Results of the financial analysis are summarized in Volume III of the Final EIS, Appendix K (Financial Analysis), and in Volume I of the Final EIS, Section 2.0 (Alternatives).

FI-31. *Cost of Tennessee Hollow Restoration and Crissy Marsh Expansion*

A few commentors suggest that the Tennessee Hollow restoration was significantly under-funded in the Draft Plan Alternative. One commentor suggests that the Trust fund, with its receipts, the expansion of Crissy Marsh.

Response FI-31 – Refer to Response FI-9. In the Draft Plan alternative, as well as in the other PTIP planning alternatives that call for the restoration of Tennessee Hollow, the Trust allocated approximately $806,000. As noted, in actuality, capital costs may be higher or lower than what is assumed in the financial planning model. This is because the assumptions were based upon the best available information. It is also particularly difficult to forecast capital costs accurately when the scope of the capital improvement (or in this case, natural resource enhancement) is uncertain. Additional planning for both the Tennessee Hollow restoration and the Crissy Marsh study is just beginning; cost elements of both projects will, of necessity, be refined. As the commentors suggest, associated costs may ultimately be quite a bit higher than assumed for PTMP financial modeling purposes.

Where the model, as here, is used only to compare the relative financial performance of alternative land use scenarios rather than to accurately predict long-term costs, estimates that may be high (such as the infrastructure capital costs discussed in Response FI-9) are likely to be offset by others that may be low, such as the Tennessee Hollow cost noted by the commentor.

FI-32. *Rate of Housing Removal*

Several commentors encourage the Trust to remove housing as quickly as financially possible. ("Housing areas proposed for removal should be phased out as soon as financially possible to allow for parkland restoration.")

Response FI-32 – The PTMP financial model makes assumptions about the phased demolition of Wherry Housing and other non-historic housing units, but these assumptions are not intended to be indicators of actual implementation decisions. The timing of residential demolition will hinge on future long-term implementation decisions. The Trust will consider factors such as the cost of building demolition as determined by more refined cost estimates, the need for revenues to fund natural resource and preservation goals, and issues related to the feasibility of habitat restoration, among other things. See responses to housing comments for further discussion.

FI-33. *Public Safety Cost Estimates*

Some commentors voice concern about the Trust's estimate of annual public safety costs (about $6.0 million). Instead, some commentors suggest that the Trust use historical U.S. Park Police (USPP) figures, which estimate the annual cost required to maintain the USPP's current level of service. One commentor states, "Specifically for the GMPA 2000 Alternative, the USPP identifies start-up costs for hiring additional personnel, (and) purchasing new vehicles and other equipment of $725,000. In addition, the annual costs for staffing, recruitment, equipment, and supplies are estimated to be as much as $2.6 million. We believe that such an analysis for the other alternatives would be instructive to the financial model." In addition, some commentors suggest that the Trust encourage the fire department to identify its costs to deliver service under the various planning alternatives, since "changes in population are important life-safety factors, and operations will undoubtedly have to be adjusted to maintain current levels of service."

Response FI-33 – The PTMP financial model assumes that expenses for public safety services would total $6 million per year. This dollar figure is based upon existing agreements with the USPP and the NPS for law enforcement, fire prevention and suppression, and emergency medical response services. As indicated in many of the preceding responses to comments, commentors' suggestions misunderstood the purpose of the PTMP financial model. Though the Trust made diligent efforts to include a reasonable estimate of future public safety costs, a precise estimate is not material to the application or outcome of a financial model used to compare the relative, long-term financial performance of different planning alternatives. See Response FI-1. Most costs are treated as constants in the model in an effort to simplify the calculations and make the comparison among alternatives meaningful. In this light, attempting to accurately predict or vary future estimates of public safety cost by alternative, as the comments suggest, is unnecessary, and complicates the model in a way that does not serve its broad purposes. See also Response FI-8.

FI-34. ***Parking Fees and TDM Expenses in the PTMP Financial Analysis***

Several commentors suggest that the Trust charge user fees to increase revenues, including monthly parking fees for employees (suggested at $140 per month or $7 per day) and fees for people who drive long distances to work at or visit the Presidio. One commentor states, "…anyone that needs to drive, needs to pay. All residents living in a mile radius outside of the Presidio, should have free access to the Presidio, as should residents of the Presidio housing." Commentors do not support the idea of charging entrance fees at the gates of the Presidio. Commentors also suggest that the Trust quantify forecasted parking revenues and the expenses associated with its Transportation Demand Management (TDM) program, rather than assuming in the financial analysis that parking revenues would be offset by expenses associated with the TDM program (i.e., the sum of these two programs would equal zero). One commentor states, "While the Draft Plan makes a case that actual TDM revenues and expenses are uncertain, so are many of the Presidio's other revenues. A best estimate of revenues should be made and reported."

Response FI-34 – The suggestions raised by commentors again confuse transportation-related policy decisions with the purposes and application of the financial planning model. See Response FI-1. For purposes of comparing hypothetical planning alternatives, the Trust has reasonably assumed that parking fee revenues will be fully offset by TDM program costs. The basis for this financial modeling assumption is fully set forth in the (updated) PTMP Financial Model Assumptions and Documentation binder dated May 2002 available in the Trust offices. At this time, both the potential revenues from parking fees and the costs associated with TDM and other transportation programs are highly uncertain. The Trust chose not to complicate the model with a series of guesses about highly uncertain and speculative future parking revenues and TDM costs.

With respect to the policy decision, the Trust is planning to implement parking fees for Presidio employees and residents as a means to control parking demand. See Response PK-14. In response to the comment suggesting specific parking fees, see Response FI-24.

FI-35. ***Mitigation Costs, Transit Costs, and Other Costs in the PTMP Financial Analysis***

Some commentors suggest that the Trust include in its financial analysis the estimated cost of mitigating any neighborhood traffic impacts associated with the different PTMP planning alternatives. These mitigation measures might include enhanced bus service and other transit improvements outside the Presidio boundaries. One commentor states, "We would like to see a financial plan that reflects these differential costs, and shows whether or not each alternative can generate a revenue stream sufficient to offset the cost of implementing mitigation strategies, such as increased transit service." Commentors also want to know what specific transit improvements are being contemplated by the Trust, and how these improvements might be funded.

Response FI-35 – Costs of many of the proposed mitigation measures are already encompassed within the operating and capital cost assumptions of the PTMP financial model. Because of the length of the planning horizon and the uncertainty over the extent of mitigation that may be needed in the long term, many of these costs were included in general terms as part of a larger cost category or as rough estimates. Other costs are too distant or too speculative to provide a meaningful guess in the context of a comparative 30-year model. Further, the uncertainty of making accurate predictions of how mitigation costs may vary from one alternative to another is an effort outside the bounds of the usefulness and purpose of the PTMP financial model. See Response FI-8. Rather than attempting to use the model to estimate long-term transportation mitigation costs precisely, the modeling assumptions give an adequate preliminary estimate of mitigation costs for purposes of comparing alternatives and indicating whether an alternative has adequate revenue-generating capacity to achieve baseline self-sufficiency and sustainability. In the future, the Trust must balance the complex mix of financial variables – changes in the level and sources of revenue, timing of cash flow, market conditions, and cost control measures – so that funds are available for those mitigation measures, such as transit and transportation enhancements to protect the environmental conditions and character of the park. During Plan implementation, the Trust will rely upon more sophisticated financial budgeting tools in setting budget priorities and allocating sufficient funds to needed implementation activities, including sufficient funds for needed mitigation measures.

FI-36. ***City and County of San Francisco Tax Revenues in the PTMP Financial Analysis***

Several commentors suggest that the Trust estimate the fiscal impact of the PTMP planning alternatives on the CCSF in terms of lost tax revenues. Lost tax revenues might occur, commentors suggest, if businesses choose to locate at the Presidio instead of within the borders of the CCSF. One commentor states, "Some of these businesses will compete directly with established businesses outside the Presidio gates, but are not subject to the same local and state taxes. For example, lodging, restaurants, and retail businesses will compete with nearby businesses on Lombard Street and the surrounding area. Is the Trust expecting to create a tax-free business zone?" This sentiment is echoed by another commentor: "How do you justify not collecting taxes in the park at the expense of the neighboring businesses that will be taxed? What is the Trust's justification for financially trying to ruin the small businesses adjacent to the National Park?"

Response FI-36 – None of the PTIP planning will have a significant negative effect on tax revenue to the CCSF. Businesses locating within the Presidio are not exempt from most business taxes, and such taxes do not accrue to the Trust, but to the CCSF. Sales tax revenues and hotel occupancy taxes are two examples of taxes that would accrue to the CCSF. CCSF is restricted from collecting property taxes and assessments related to the Presidio, however, because the Presidio has always been under exclusive federal jurisdiction and has never generated property tax revenue for CCSF. Therefore, no stream of property tax revenues exists that would be affected by future activities under the Plan. As to commentors' concerns that Presidio-based businesses might enjoy a competitive advantage, it is important to note that in addition to rent, Presidio tenants are required to pay a service district charge to the Trust that is similar in many respects to property tax. The revenue from the service district charge supports the various municipal-type services that the Trust, rather than the CCSF, provides to Area B of the Presidio.

Costs to CCSF related to the Presidio are also extremely limited. The Trust and the NPS, not CCSF, bear the cost of repair, maintenance and capital improvements for the Presidio's roads, sidewalks, sewer, storm drainage systems, and forest and other open space. The Presidio has its own water source and water treatment plant. The U.S. Park Police provide law enforcement services at the Presidio and the NPS provides fire and emergency response. To the extent students living in the Presidio attend San Francisco public schools (supported primarily by local property taxes), federal law provides for a per-student payment from the Department of Education to the school district.

In the few cases where the Trust uses CCSF services (e.g., treatment of sanitary sewer, supplemental potable water), the Trust pays for those services. In some cases, Presidio municipal services even provide a benefit to CCSF residents. For example, after the 1989 earthquake the Presidio Fire Department provided one of the first emergency service response teams to the Marina area.

Finally, the commentors' statements appear to ignore the many extraordinary tangible benefits provided by the Presidio to the residents and economy of San Francisco. Residents and visitors have access to and enjoy the Presidio's recreational, natural and historic resources at no charge, and the CCSF is not required to fund even a portion of the park's maintenance and upkeep.