FINANCIAL ANALYSIS
TECHNICAL MEMORANDUM

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I. INTRODUCTION

The Presidio Trust (the Trust) has been directed by the U.S. Congress to preserve and enhance the resources of the Presidio and to ensure that the park achieves both short- and long-term financial self-sufficiency. The directive requires the Trust to generate enough revenue by 2013 to cover day-to-day operating expenses (short-term financial self-sufficiency) and projected long-term capital improvements and replacement reserves (long-term financial sustainability) without continuing annual federal appropriations. In order to understand the relative revenue-generating potential of the land-use planning alternatives being studied in this Environmental Impact Statement (EIS), the Presidio Trust's economics consultant, Sedway Group, developed a computer-based financial model to evaluate the financial self-sufficiency and financial sustainability of the different EIS planning alternatives.

A. OVERVIEW

This Financial Analysis Technical Memorandum updates the draft technical memorandum presented as Appendix J in the Presidio Trust Management Plan Draft Environmental Impact Statement (PTMP Draft EIS). It discusses changes that have been made to the PTMP financial model in response to public comments since the Draft EIS was released to the public in July 2001. This Financial Analysis Technical Memorandum for the Final EIS has been organized into the following sections:

I. **Section I – Introduction –** presents a general overview of this technical memorandum and discusses the process and methodology undertaken to generate the comparative financial results. This section also discusses the purpose, capabilities and limitations of the PTMP financial model.

II. **Section II – Financial Performance of Alternatives –** discusses the factual updates included in the financial model since July 2001. This section recaps the comparative financial performance of the six alternatives presented in the Draft EIS and updates the financial performance results for all six alternatives based on the factual updates.

III. **Section III – Sensitivity Analyses –** discusses the effect on the financial performance of the planning alternatives when key financial modeling assumptions are changed, such as the level of operating expenses.

IV. **Section IV – Assumptions and Limiting Conditions –** presents Sedway Group's standard assumptions and limiting conditions.

V. **Section V – Attachments –** presents supporting information and exhibits (See list of attachments in the Table of Contents).

B. PROCESS AND METHODOLOGY

In order to simulate the financial performance of the EIS land-use alternatives for Area B, assumptions (e.g., planning, market, phasing, financing, and operational) had to be provided as inputs to the financial model. The reasonableness of these assumptions (or inputs) affects the soundness of the results (or outputs) of the financial model. Throughout this process, the Presidio Trust and Sedway Group have strived to provide model inputs that are based upon objective information, actual operating experience, and best professional judgment (i.e., based in conservatism). All numbers are in present (2001) dollars.

Key assumptions and variables are presented in Attachment A. For more information about the inputs into and assumptions of the financial model, please refer to the Presidio Trust Management Plan (PTMP) Financial Model Assumptions and Documentation Binder located in the Presidio Trust offices. The general methodology used to compare and evaluate the financial performance of the six EIS conceptual planning alternatives is presented below:

- ***Model Inputs from the Presidio Trust.*** The Presidio Trust provided all of the model's assumptions – except the market-based assumptions – to Sedway Group. Sedway Group did not independently research the validity of these inputs. Some of the key inputs Sedway Group received from the Presidio Trust include: the hypothetical land use program for each alternative (residential units and non-residential square footages); existing lease revenues; recreational use rent revenues; residential revenues; expected revenue from the Letterman Digital Arts Center (LDAC) ground lease; Presidio-specific revenues (e.g., Treasury borrowing, federal appropriations, utility revenues, special events revenues, and permits and salvage); park-wide operating expenses; financing costs; program expenses; rehabilitation and demolition costs; Service District Charges (SDC); all capital costs, including infrastructure improvements; and the timing of the Wherry Housing demolition. The land use program, the residential program, and the timing of new construction and demolition for each alternative are included as Attachments B, C and D.

- ***Model Inputs from Sedway Group.*** Sedway Group researched the market-based assumptions that were input into the financial model. Some of the key inputs from Sedway Group include: market rental rates for various land uses (e.g., Class B office, industrial/warehouse, retail, and cultural/educational); vacancy rates, and; verification of ground rents.

- ***Calculations and Logic.*** The financial model uses the inputs described above and applies a series of calculations. All park-wide operating expenses (including financing costs and program expenses) are added together and subtracted from total revenues. All cash available each year after covering operating expenses is used to fund the necessary capital improvements until all building and infrastructure improvements have been made. As buildings are rehabilitated and constructed, and the infrastructure of the Presidio is improved, the Trust then receives additional revenues from the new residential and non-residential uses. After all capital improvements are completed, the cash generated by the Presidio is used to replenish and sustain the capital replacement set-aside (reserve) fund. No capital replacement reserves are set-aside until all capital projects are completed. This assumption is reasonable because completing capital improvements is necessary to protect the park's resources, and because the Presidio's buildings and infrastructure will have been recently improved (i.e., they will be in less need of immediate capital investment).

C. CAPABILITIES OF THE FINANCIAL MODEL

1. Purpose and Capabilities of the PTMP Financial Model

The PTMP financial model developed by Sedway Group was designed for a single purpose – to compare general land use alternatives. It was designed as a planning tool and not as a budgeting or forecasting tool. As such, it provides a rough estimate of the revenue-generating potential of the different PTMP scenarios at the Presidio and, thus, is able to predict the capacity to achieve short-term self-sufficiency and the time needed to reach long-term financial sustainability. It provides only a generalized framework for comparing the relative financial implications of land use alternatives, and does so by keeping as many assumptions as possible constant across all alternatives in order to make the comparison among alternatives meaningful. Specifically, the financial model was designed to:

- ***Confirm Financial Self-sufficiency.*** By congressional mandate, the Presidio Trust has been charged with preserving and enhancing the Presidio's resources for the long-term as well as ensuring the park is operationally self-sufficient by 2013. This requires that, by 2013, annual revenues generated by Trust operations meet or exceed the annual operating expenses without need of further continuing annual federal appropriations. Under the Trust Act, annual appropriations from the U.S. government are scheduled to terminate in 2012. The financial model confirms the short-term self-sufficiency of each planning alternative by comparing annual revenues to annual operating expenses in FY 2013.

- ***Determine Time Needed to Reach Financial Sustainability.*** In addition to ensuring that the Presidio Trust covers its operating expenses without continuing annual appropriations, an additional aspect of self-sufficiency is long-term financial sustainability. The Presidio Trust must ensure that the Presidio generates sufficient revenues to meet its long-term capital needs. For example, the Trust must generate enough cash to complete necessary capital improvements to buildings, infrastructure systems (e.g., utilities, water, and telecommunications), and open spaces. It also must, by setting aside money in a replacement reserve account, make sure that funds are available in perpetuity to upgrade worn-out buildings and park infrastructure, such as roads, grounds, natural areas, and utilities. The financial model evaluates the financial performance of each land-use scenario over a 30-year period by estimating how long it would take the Presidio Trust to complete all of its capital improvements and fully fund a replacement reserve account.

- ***Compare Financial Performance of Alternatives.*** The financial model is specifically designed to compare the hypothetical financial performance of different EIS planning alternatives being considered and evaluated as part of the PTMP process. In order to provide a consistent and valid comparison, the financial methodology used to evaluate each alternative is the same, and most of the major assumptions that underlie the model are consistent across all alternatives.

2. Limitations of the PTMP Financial Model

Because it was only designed to compare the relative revenue-generating capacity and timing implications of land use alternatives, the financial model does not answer all questions about the Presidio's financial future. The PTMP financial model was not designed to accurately or precisely predict long-term Trust operating costs, actual future revenues, future budgets, building-specific implementation decisions, planned project phasing, or other future financial decisions of the Trust. Further, it does not reflect business cycles (i.e., the financial model neither indicates economic booms or economic downturns in the future). Instead, the financial model reflects hypothetical financial conditions – based on conservative assumptions – at a point in time and carries those hypothetical financial conditions out into the future. Thus, 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 <u>not</u> 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 about actual future financial conditions can be accurately predicted over the model's 30-year modeling horizon, and therefore the model cannot be used to accurately forecast cash flows. In all likelihood, the actual financial performance of the final land use mix at the Presidio will be much different than the estimated financial performance of the various PTMP land use alternatives. Instead, the Presidio Trust will use more sophisticated and refined financial budgetary tools to forecast expected cash flows and guide future land-use implementation decisions.

- ***Reflect Actual Implementation Decisions.*** The financial results generated by the model are based on a set of hypothetical assumptions about how the Presidio's future land uses might be implemented. These are assumptions only, and in no way represent a schedule or plan for implementation. In all likelihood, these assumptions will change and evolve over time in response to new information and changing market conditions. Thus, the PTMP financial model's assumptions (e.g., the number of residential conversions and/or the level of third-party rehabilitation funding) should be viewed as modeling assumptions only and not as actual policy decisions of the Presidio Trust.

Uncertainty is inherent in any financial forecast. The longer the forecast period, the more uncertainty there is about the actual outcome, and hence the greater the likelihood that the predictions will differ from the actual results. Here, where the Trust's planning process involved long 20- to 30-year predictions, the most useful modeling tool was one designed to compare financial performance based upon reasonable but largely common assumptions, rather than a model designed to accurately predict future financial outcomes. In a financial modeling context, the extent and effects of uncertainty are generally addressed through the use of modeling sensitivity analyses. That is the approach used here for the PTMP planning alternatives. The results of various sensitivity analyses are presented in later sections of this technical memorandum.

II. FINANCIAL PERFORMANCE OF ALTERNATIVES

A. FACTUAL UPDATES TO THE FINANCIAL MODELING ASSUMPTIONS

Over the period of the PTMP planning process, the financial model has been continually updated to reflect new financial facts as they have become known, finalized or available. The PTMP financial model for the Final EIS reflects up-to-date factual information including the following:

- ***Financial Model Timeframe***. The financial model was extended from 20 years to 30 years. This allows the projected revenues, capital costs, and expenses to be modeled for an additional 10 years to incorporate the financial implications of demolishing Wherry Housing in three phases (i.e., in 2012, 2020, and 2030).

- ***Letterman Digital Arts Center Development Agreement.*** Since completion of the Draft EIS, the Trust signed a development agreement with Letterman Digital Arts, Ltd. for the construction of the Letterman Digital Arts Center (LDAC) campus. The costs and revenues associated with this agreement have been incorporated into the PTMP financial model assumptions and supersede the earlier assumptions relied on in the Draft EIS.

- ***Fiscal Year 2001 and 2002 Budget Figures.*** The financial analysis in the Draft EIS included estimated fiscal year 2001 budget numbers. The financial analysis in the Final EIS now includes the actual fiscal year 2001 budget numbers and estimated fiscal year 2002 budget numbers.

- ***Existing Building Leases***. The financial analysis in the Draft EIS included actual and estimated figures for the amount of non-residential space leased in 2000 and 2001 (i.e., leases considered "existing leases"). Due to the recent downturn in the economy, several existing leases changed, and the 2001 modeling assumptions for them were adjusted in the financial analysis in the Final EIS. Assumptions about existing leases in 2001 and 2002 reflect figures from the Presidio Trust's actual fiscal year 2001 budget and estimated fiscal year 2002 budget.

- ***Program Expenses***. The level of park programming varied from one PTMP alternative to another. Therefore, the financial model assumes a different level of annual program expenses for each PTMP alternative, reflecting each alternative's relative emphasis on programs. In the Draft EIS, stabilized annual program expenses varied from \$2 million to \$10 million across all alternatives. It was assumed that annual program expenses from 2001 to 2006 were \$2 million for each alternative, reflecting a phase for program development and start-up. Then, the model assumed complete implementation of all park programs and reflected a precipitous increase in annual program expenses in 2007 for all alternatives to the assumed full, stabilized level of expenses (e.g., \$8 million in the Resource Consolidation and Sustainable Community alternatives). The program phasing assumptions have been modified in the Final EIS. Now, the model assumes annual program expenses for all alternatives increase incrementally each year beginning in 2007 until they reach a stabilized level in 2020. For example, in the Resource Consolidation Alternative, annual program expenses are assumed to be \$2 million in 2006, \$5 million in 2013, and \$8 million (stabilized) in 2020. Also, in response to public comment seeking more modest levels of park programs in the Final Plan Alternative, stabilized annual program expenses for the Final Plan Alternative were reduced from the assumed \$10 million in the Draft EIS to an assumed \$5 million in the Final EIS.

B. SUMMARY FINANCIAL RESULTS

This section presents the summary financial results for each PTMP planning alternative. The spreadsheets showing the Final EIS detailed modeling output for each PTMP alternative are in Attachment E of this technical memorandum. The detailed spreadsheets showing the Draft EIS detailed modeling output are in Attachments O, P and Q of this technical memorandum.

1. Final Plan Alternative Summary Results

The Final Plan Alternative is financially self-sufficient in 2013 and financially sustainable over the long term. The $589 million capital program, second largest among all the PTMP planning alternatives, was estimated to be complete in approximately 2025. The assumed capital program for this alternative was the highest due to (1) its emphasis on converting barracks and other residential space to appropriately-sized and styled residential units, and (2) its emphasis on rehabilitating existing, historic, non-residential space for cultural and educational uses. The implementation phase is estimated to be completed in approximately 2029. Summary results for the years 2013, 2020 and 2030 in the Final EIS include:

- ***Year 2013.*** About $21.5 million is available to fund capital projects and more than 55 percent ($334 million) of the Presidio's capital program is estimated to be completed.

- ***Year 2020.*** After two-thirds of Wherry Housing has been demolished, about $23.2 million is available to fund capital projects and more than 80 percent ($485 million) of the Presidio's capital program is estimated to be completed.

- ***Year 2030.*** The capital program and the implementation phase are estimated to be completed.

Other financial results for this alternative include the following:

- ***Programs***. In the Draft EIS financial analysis, in 2006, annual program expenses increased from $2 million to $10 million. This increase absorbed a considerable amount of the excess cash that would have been available to rehabilitate additional non-residential space.

  In the updated financial analysis in the Final EIS, the annual program expenses assumption was revised. Programs are assumed to be constant at $2 million from 2002 through 2006. Program expenses then increase incrementally from $2 million to $5 million in 2020.

- ***Residential Space.*** In the Draft EIS modeling, during the early years of the planning period, the effort to rehabilitate existing residential space was extensive and costly (about $41 million). This extensive renovation limited the availability of cash to fund the rehabilitation of non-residential space. However, after the residential rehabilitation work is assumed to be completed in 2005, this alternative generated significant residential revenues to fund capital projects, some of which generated additional revenues. This result is consistent in the updated financial analysis.

- ***Residential Conversions.*** In the Draft EIS modeling, a major effort to convert existing residential units into smaller units was initiated in 2007. In some cases, these residential conversions generated net new revenues. In other cases, however, the incremental increase in total revenues was marginal. The $107 million required to convert these residential units was phased in between 2007 and 2020 and absorbed the majority of revenue available to fund the completion of the capital program.

In the updated financial analysis in the Final EIS, the timing of residential subdivision projects are estimated to be funded between roughly 2010 and 2020, again absorbing a substantial portion of the cash available to fund the capital program.

- ***Wherry Housing Demolition.*** In the Draft EIS modeling, one-third of Wherry Housing was demolished in 2012, and the remaining two-thirds was demolished in 2020. This meant the end of Wherry Housing revenues in 2020.

  In the updated financial analysis in the Final EIS, Wherry Housing demolition is assumed to occur in phases – one-third in 2012, one-third in 2020, and one-third in 2030. The result is the availability of about $35 million in additional residential revenues between 2020 and 2029.

2. Final Plan Variant Summary Results

The Final Plan Variant (proposed by the Sierra Club) was developed in response to public comments on the Draft EIS. As indicated in the Attachment E summary sheets, the Final Plan Variant is financially self-sufficient in 2013 and sustainable over the long-term. The $614 million capital program, the highest among all the PTMP planning alternatives, is estimated to be completed in approximately 2035. Capital costs are the highest because the Final Plan Variant emphasizes converting barracks and other existing residential space to appropriately-sized and -styled residential units. These residential conversions account for more than 30 percent ($193 million) of the total capital program.

Capital costs are highest in the Final Plan Variant due in part, to modeling assumptions about source of financing costs. In the PTMP financial analysis, the rehabilitation of existing space is assumed to be funded by the Presidio Trust and the construction of new space is assumed to be funded by third parties. Thus, non-residential rehabilitation costs in the Final Plan Variant are high, even though the variant includes the lowest amount of total square footage (4.7 million square feet). Finally, the implementation phase is estimated to be completed by approximately 2045. Summary results for the years 2013, 2020, and 2030 in the Final EIS include:

- ***Year 2013.*** Approximately $12.6 million is available to fund capital projects and roughly 48 percent ($295 million) of the Presidio's capital program is estimated to be completed.

- ***Year 2020.*** After two-thirds of Wherry Housing has been demolished, about $14.6 million is available to fund capital projects and roughly 63 percent ($384 million) of the Presidio's capital program is estimated to be completed.

- ***Year 2030.*** After the final third of Wherry Housing has been demolished, approximately $18.8 million is available to fund capital projects and roughly 87 percent ($532 million) of the Presidio's capital program is estimated to be completed.

Other financial results of the Final Plan Variant include:

- ***Programs.*** The relatively low level of program-related costs ($2 million per year) has a major effect on the financial performance of the Final Plan Variant relative to other more program-intensive alternatives (e.g., Final Plan Alternative, Resource Consolidation, Sustainable Community, and Cultural Destination). Spending less on programs means that more money is available over the long-term to pay for capital improvements and reserves, and this shortens the time needed to complete the capital program and achieve financial sustainability.

- ***Residential Space.*** In the Final Plan Variant, the cost to rehabilitate existing residential dorm and apartment units is slightly lower than in other PTMP planning alternatives. The relatively lower cost means that more funds are available during the early years of the planning period to complete non-residential rehabilitation projects, which generate additional revenues.

  Additionally, in the Final Plan Variant, the Presidio Trust receives building rents for all residential space, instead of reduced ground rents from third-party builders (see PTMP Financial Model Assumptions and Documentation Binder, located in the Presidio Trust offices, for a complete breakdown of rents by use). Thus, the Variant generates fairly high residential revenues during the first five to ten years of the planning period, at which point several non-historic housing neighborhoods are scheduled for demolition. Wherry Housing is demolished over three phases – one-third in 2012, one-third in 2020, and one-third in 2030. Due to the phased demolition of Wherry Housing, it generates substantial revenues over the 30-year planning period.

- ***Residential Conversions.*** In the Final Plan Variant, a major effort to convert existing residential units into smaller units is initiated in 2010. In some cases, these residential conversions generate net new revenues. In other cases, however, the incremental increase in total revenues was marginal (e.g., the rent from two 2-bedroom units is not substantially more than one 4-bedroom unit). The $193 million required to convert these residential units was phased in between 2010 and 2030 and absorbed the majority of cash available to fund capital projects in these years.

- ***Non-residential Space.*** In keeping with the public's expressed objectives for the Final Plan Variant, more than 60 percent of the available office space at the Presidio (i.e., all office space that is not encumbered by existing long-term leases) is dedicated to program-related, mission-enhancing (i.e., non-profit) tenants. This space is leased at rental rates assumed for cultural/educational tenants at the Presidio ($9 per square foot per year, triple net).

3. GMPA 2000 Alternative Summary Results

The GMPA 2000 Alternative is financially self-sufficient in 2013 and financially sustainable over the long term. The $519 million capital program is estimated to be completed in approximately 2040 and the implementation phase is estimated to be completed between approximately 2050 and 2055. Summary results for the years 2013, 2020, and 2030 in the Final EIS are as follows:

- ***Year 2013.*** Only $3.3 million is available to fund capital projects. While meeting the self-sufficiency criteria, this operating margin is considered marginal, and thus could be vulnerable to significant negative economic shifts or other unforeseen events. As of 2013, roughly 49 percent ($255 million) of the Presidio's capital program is estimated to be completed.

- ***Year 2020.*** Approximately $5.2 million is available to fund capital projects and about 52 percent ($269 million) of the Presidio's capital program is estimated to be completed. Only $14 million in capital projects is estimated to be funded between 2013 and 2020 because of the slim operating margin (i.e., there is a limited amount of cash available to fund capital projects) during this critical time period.

- ***Year 2030.*** Approximately $11.3 million is available to fund capital projects and roughly 63 percent ($327 million) of the capital program is estimated to be completed.

Other financial results for this alternative include the following:

- ***Programs.*** In the Draft EIS financial analysis, the relatively low level of program-related costs ($2 million per year) had a major effect on the financial performance of the GMPA 2000 Alternative relative to other program-intensive alternatives (e.g., Draft Plan, Resource Consolidation and Sustainable Community). Spending less on programs meant that more money was available over the long-term to pay for capital improvements and reserves, and this shortened the time needed to complete the capital program and achieve financial sustainability. The level of annual program expenses remains unchanged in the Final EIS financial modeling.

- ***Residential Space.*** In the Draft EIS modeling, the rehabilitation of existing residential dorm and apartment units was not as extensive as it was in other PTMP planning alternatives. In the GMPA 2000 Alternative, residential rehabilitation was estimated to be complete by 2004. The relatively lower cost of this residential rehabilitation meant that funds were left over during the early years of the planning period to complete non-residential rehabilitation projects as well, which generated additional revenues.

  Additionally, in this alternative, the Presidio Trust receives building rents for all residential space, instead of ground rent from third-party builders (see Financial Model Assumptions and Documentation Binder, located in the Presidio Trust offices, for a complete breakdown of rents by use). Thus, in the Draft EIS financial analysis, the alternative generated fairly high residential revenues during the first five to ten years of the planning period, at which point several non-historic housing neighborhoods were scheduled for demolition. Wherry Housing was fully demolished in 2012, resulting in a loss of approximately $11.5 million annually thereafter.

  The financial results of the updated financial analysis in the Final EIS are consistent with the Draft EIS; residential rehabilitation is completed by 2005. The timing of residential demolition remained unchanged from the Draft EIS financial modeling.

- ***Non-residential Space.*** In the Draft EIS financial analysis, non-residential revenues grew slowly through the first several years, picking up pace as lodging revenues began to accumulate. Highlights of the performance of specific non-residential uses in the Draft EIS financial analysis included:

  - *Lodging.* In the Draft EIS modeling, lodging uses were an important component of the revenues generated in the GMPA 2000 Alternative, accounting for almost 20 percent of all annual non-residential revenues (after the reuse plan had been fully implemented). However, rehabilitating Presidio buildings for lodging and conference space was relatively expensive, and, as a result, it absorbed more of the cash available for capital improvements. This in turn lengthened the amount of time required to complete the capital program. In the updated financial analysis in the Final EIS, lodging uses remain an important source of non-residential revenues in the GMPA 2000 Alternative.

  - *Office.* In the Draft EIS modeling, more than half of the available office space at the Presidio (i.e., all office space that was not encumbered by existing long-term leases) was dedicated to program-related, mission-enhancing (i.e., non-profit) tenants. This space was leased at rental rates assumed for cultural/educational tenants at the Presidio ($9 per square foot per year). In addition, in conformance with the vision of the 1994 GMPA, warehouse space was also assumed to be rented to program-related, mission-enhancing tenants at $9 per square foot per year. It was also assumed that new buildings (constructed by third parties) would be leased to program-related, mission-enhancing tenants, which reduced the value of the land underneath the building effectively to zero. As a result, no ground lease revenues were collected by the Presidio Trust for land uses assumed to be leased to such tenants (i.e., office and warehouse). Renting space to program-related, mission-enhancing tenants reduced the total gross potential revenue that could have been generated from Presidio office space.

In the updated financial analysis in the Final EIS, warehouse space is not assumed to be occupied by program-related, mission-enhancing tenants and is therefore assumed to be rented at market rents ($12 per square foot). Consistent with the Draft EIS analysis, in the updated Final EIS analysis, approximately half of all office space (not including the Letterman Digital Arts Center) is assumed to be occupied by program-related, mission-enhancing (i.e., non-profit) tenants at $9 per square foot. As before, this reduces the total gross potential revenues that could be generated from Presidio office space.

4. Resource Consolidation Alternative Summary Results

The Resource Consolidation Alternative is financially self-sufficient in 2013 and financially sustainable over the long term. The $494 million capital program is estimated to be completed in 2030 and the implementation phase is estimated to be completed in approximately 2040. Summary results for the years 2013, 2020, and 2030 in the Final EIS financial analysis are as follows:

- ***Year 2013.*** Approximately $10.4 million is available to fund capital projects and roughly 59 percent ($291 million) of the Presidio's capital program is estimated to be completed.

- ***Year 2020.*** After the final two-thirds of Wherry Housing has been demolished, approximately $9.0 million is available to fund capital projects. Roughly 74 percent ($366 million) of the Presidio's capital program is estimated to be completed. While operating cash flows are smaller due to the loss of Wherry Housing revenues, there are still enough revenues from other residential and non-residential space to complete the capital program by 2030.

- ***Year 2030.*** Approximately $16.7 million is available to fund capital projects, and these funds are used to complete the capital program by 2030.

Other financial results for this alternative include:

- ***Programs.*** In the Draft EIS financial analysis, annual program expenses were scheduled to increase to $8 million in 2006, limiting the amount of available cash to fund capital projects.

  In the updated financial analysis in the Final EIS, the annual program expenses assumption was revised. Programs are assumed to be constant at $2 million from 2002 through 2006. Program expenses then increase incrementally from $2 million to $8 million in 2020. This results in additional available cash between 2007 and 2019, which can be used to fund non-residential rehabilitation.

- ***Capital Improvements.*** In the Draft EIS financial analysis, a substantial amount of demolition and park-wide infrastructure improvements (both of which were the highest among all the PTMP alternatives) absorbed a significant amount of available cash flow during the early years of the planning period. This was money that would otherwise have been used to fund building rehabilitation, which in turn could have generated additional revenues. This cost was offset by a lower amount of total square footage (which required relatively fewer capital dollars) and a relatively higher percentage (nearly 40 percent) of new square footage. New construction projects could be phased in as appropriate, rather than delayed until sufficient excess cash was available to fund the improvements. However, because this new construction was ground leased, it generated lower revenues for the Presidio Trust.

In the Draft EIS financial analysis, the amount of cash available to complete the capital program over the last 10 years of the planning period was limited for three reasons: (1) the continuing high cost of park-wide infrastructure improvements through 2020, (2) the end of federal appropriations in 2012, and (3) the loss of a portion of Wherry Housing residential revenues. By 2013, approximately $11.7 million in excess cash was available to fund capital projects. By 2020, this amount increased only slightly to $12.1 million. The increase was only slight because significant revenues associated with Wherry Housing were eliminated. This revenue reduction, however, was offset by the relatively large amount of new residential and non-residential space, both of which did not require Presidio Trust financing. This new space also could be phased in as appropriate, according to the policy goals of the Presidio Trust for this alternative.

In the updated financial analysis in the Final EIS, the land use program continues to have a high proportion of new space (approximately 40 percent). The availability of cash to fund capital projects was impacted in the same manner as in the Draft EIS (i.e., minimal available between 2010 and 2020) for the same reasons as outlined above.

5. Sustainable Community Alternative Summary Results

The Sustainable Community Alternative is financially self-sufficient in 2013 and financially sustainable over the long term. The $525 million capital program is estimated to be completed in 2023 and the implementation phase is estimated to be completed in approximately 2029. Summary results for the years 2013, 2020, and 2030 in the Final EIS financial analysis are as follows:

- ***Year 2013.*** Approximately $20.4 million is available to fund capital projects and roughly 63 percent ($330 million) of the Presidio's capital program is estimated to be completed.

- ***Year 2020.*** After the final two-thirds of Wherry Housing has been demolished, approximately $20.5 million is available to fund capital projects. More than 90 percent ($477 million) of the Presidio's capital program is estimated to be completed.

- ***Year 2030.*** The capital program and the implementation phase are completed.

Other financial results of this alternative include:

- ***Programs.*** In the Draft EIS financial analysis, dollars allocated to program expenses increased beginning in 2006 from $2 million to $8 million per year. This increase limited the money available to fund capital projects.

  In the updated financial analysis in the Final EIS, the annual program expenses assumption was revised. Programs are assumed to be constant at $2 million from 2002 through 2006. Program expenses then increase incrementally from $2 million to $8 million in 2020. This results in additional available cash between 2007 and 2019, which can be used to fund non-residential rehabilitation.

- ***Residential Space.*** In the Draft EIS financial analysis, this alternative emphasized the reuse of existing housing units. This policy resulted in a substantial initial capital investment in residential rehabilitation (about $44 million between 2001 and 2004). Accordingly, fewer capital dollars were directed to non-residential rehabilitation during the early years of the planning period. However, once these housing units were rehabilitated, significant revenues were generated by this residential space and these revenues could be used to fund non-residential capital projects. In the Final EIS financial modeling, the residential rehabilitation is spread between 2001 and 2005. The resulting impact on generating revenues to fund non-residential rehabilitation was consistent with the Draft EIS results.

In the Draft EIS financial analysis, nearly $40 million was spent to convert existing housing units into smaller residential units between roughly 2008 and 2010. Park revenues declined slightly in 2012, when one-third of Wherry Housing was demolished. The assumptions regarding residential conversions and the timing of the demolition of Wherry Housing were consistent in the Final EIS financial analysis.

- ***Non-residential Space.*** In the Draft EIS financial analysis, the majority of non-residential space was rehabilitated by 2013 due to strong residential revenues during the early years of the planning period. In addition, by 2013, non-residential revenues were already at about 85 percent of their stable-state level.

  In the Final EIS financial analysis, because of the impact of the factual updates, revenue generation occurs at a slightly slower pace than in the Draft EIS. In the Final EIS analysis, by 2013, non-residential revenues are estimated to be at about 80 percent of stabilized operations.

6. Cultural Destination Alternative Summary Results

The Cultural Destination Alternative is financially self-sufficient in 2013 and financially sustainable over the long term. The $562 million capital program is estimated to be completed between approximately 2030 and 2035. The implementation phase is estimated to be completed in approximately 2040. Summary results for the years 2013, 2020, and 2030 in the Final EIS financial analysis are as follows:

- ***Year 2013.*** Approximately $12.2 million is available to fund capital projects and roughly 50 percent ($279 million) of the Presidio's capital program is estimated to be completed.

- ***Year 2020.*** After the final two-thirds of Wherry Housing has been demolished, this alternative generates approximately $7.6 million to fund capital projects. Roughly 63 percent ($353 million) of the Presidio's capital program is estimated to be completed.

- ***Year 2030.*** Approximately $21.7 million is available to fund capital projects and approximately 84 percent ($472 million) of the capital program is estimated to be completed.

Other financial results for this alternative include:

- ***Programs.*** In the Draft EIS financial analysis, program expenses increased in 2006 from $2 million to $10 million per year, reflecting this alternative's emphasis on cultural and community programs. This emphasis on programs, however, limited the dollars available for capital improvements and slowed the pace of revitalization at the park (For example, between 2006 and 2020, about $120 million more was spent on programs in the Cultural Destination Alternative than in the GMPA 2000 and Minimum Management alternatives.). These annual program dollars represented funds that would otherwise have paid for rehabilitation and conversion of existing residential and non-residential buildings. Therefore, the time required to complete the capital program was extended considerably.

  In the updated financial analysis in the Final EIS, the annual program expenses assumption was revised. Programs are assumed to be constant at $2 million from 2002 through 2006. Program expenses then increase incrementally from $2 million to $10 million in 2020. This results in additional available cash between 2007 and 2019, which can be used to fund non-residential rehabilitation.

- ***Residential Space.*** In the Draft EIS financial analysis, residential rehabilitation was moderate and this allowed excess cash flow to fund capital projects during the early years of the planning period. Several additional conversions of existing residential square footage (including barracks) to residential units was scheduled to occur over the last 10 years of the financial model. This however also limited the cash available for non-residential rehabilitation. In the Final EIS financial modeling, new residential revenues are assumed to be generated through conversion of former non-residential space to residential uses. Additional conversions of existing residential square footage to more appropriately-sized and-styled units is assumed to be funded between roughly 2025 and 2030.

  In the Draft EIS financial analysis, new residential construction was phased in as appropriate, following the demolition of existing housing neighborhoods such as Wherry Housing. Because new residential construction was financed by third-party developers, park revitalization could occur more rapidly without need of sufficient Trust-generated funds. Instead, new construction could be phased in according to the policy goals established by the Presidio Trust. However, ground-lease revenues associated with new residential space were approximately one-fifth of those associated with Trust-owned and operated buildings. In the Final EIS financial analysis, the treatment of phasing of new construction was consistent with the Draft EIS.

7. Minimum Management Alternative Summary Results

The Minimum Management Alternative is financially self-sufficient in 2013 and financially sustainable over the long-term. Despite having the highest amount of square footage, this alternative has the lowest amount of capital improvements, totaling $479 million. This is because the alternative calls for minimal demolition, minimal enhancements to open space, no residential unit conversions, and less space programmed for uses that have high rehabilitation costs. The capital program is estimated to be completed in 2016 and the implementation phase is estimated to be completed in 2018. Summary results for the years 2013, 2020, and 2030 in the Final EIS financial analysis are as follows:

- ***Year 2013.*** Approximately $37.0 million is available to fund capital projects and more than 80 percent ($386 million) of the Presidio's capital program is estimated to be completed.

- ***Year 2020.*** The capital program and the implementation phase are completed.

- ***Year 2030.*** The capital program and the implementation phase are completed.

Other financial results of this alternative include:

- ***Programs.*** In the Draft EIS financial analysis, annual program expenses remained stable throughout the planning period at $2 million. This means there was available cash to fund the rehabilitation of non-residential space. The level of annual program expenses remains unchanged in the Final EIS financial modeling.

- ***Residential Space.*** In the Draft EIS financial analysis, substantial residential revenues were available during the early years of the planning period to fund capital projects. This was because all existing housing units were retained in this alternative. Because neither Wherry Housing, nor any other existing housing development, was demolished, the alternative did not suffer a reduction in residential revenues, as did each of the other PTMP planning alternatives. This remains unchanged in the Final EIS financial analysis.

- ***Non-residential Space.*** In the Draft EIS financial analysis, non-residential revenues were substantial due to the high amount of office space in this alternative (nearly 40 percent of the total square footage). The Minimum Management Alternative continues to be characterized by substantial non-residential revenues and a high level of office space in the Final EIS financial modeling.

- ***Capital Improvements.*** In the Draft EIS financial analysis, due to the combined effect of low capital costs, minimal annual program expenses, and the availability of significant revenues during the early years of the planning period, the capital program was completed much faster than in the other PTMP planning alternatives. In the Final EIS financial analysis, the capital program continues to be completed significantly earlier than the other PTMP planning alternatives.

III. SENSITIVITY ANALYSES

Uncertainty is inherent in any financial forecast. The longer the forecast period, the more uncertainty there is about the actual outcome, and hence the greater the likelihood that the predictions will differ from the actual results. In a financial modeling context, the extent and effects of uncertainty are generally addressed through the use of sensitivity analyses.

Sensitivity analyses are used to determine how susceptible the financial results might be to changes in key modeling assumptions. Because the PTMP planning process included a 20- to 30-year forecast, sensitivity analyses were used to evaluate the effects of changed future economic conditions on the different PTMP planning alternatives. An overview of the results of the sensitivity analyses conducted on each alternative is summarized below. Spreadsheets showing these sensitivity analyses can be found in Attachments F though N. This summary is followed by more detailed descriptions of the results of the sensitivity analyses conducted on each alternative.

A. OVERVIEW OF SENSITIVITY ANALYSES

What is not readily apparent in the PTMP financial results is the uncertainty inherent in the 30-year model and in the spreadsheets that present the modeling output. In their specificity and detail, the modeling spreadsheets have the appearance of being budget projections or accurate financial forecasts of expected future financial outcomes. Such a high degree of certainty is not possible over such a long financial modeling period.

The real utility of the PTMP financial model lies in its capacity to reveal the overall revenue-generating capacity of each alternative and the relative time needed to complete all park improvements (i.e., completion of the capital program) and achieve a stabilized financial state (i.e., complete the implementation phase). The model reveals that there are many different land use plans with the hypothetical capacity to meet financial self-sufficiency. All outcomes are, however, hypothetical. They are illustrations of possible outcomes, assuming all the specific market, timing, financing, and operational assumptions hold true in the future. In reality, the model's financial inputs, line-item outputs, and overall financial outcome will certainly differ in their specifics during future implementation, due to the lengthy modeling period and the multitude of financial variables involved.

A table summarizing the results of all the sensitivity analyses conducted on the PTMP planning alternatives can be found on the following page. This table is followed by a brief overview of the impact these sensitivity analyses had on each PTMP planning alternative.

PTMP PLANNING FINANCIAL MODEL ANALYSIS SUMMARY RESULTS
BASELINE & SENSITIVITY ANALYSES OF ALL ALTERNATIVES

Alternative Scenario/Sensitivity	Financially Self-Sufficient[1]	Estimated Timing of Capital Program Completion	Estimated Timing of Implementation Phase Completion
Final Plan			
Baseline Scenario	YES	2025	2029
Revenue Decrease (5% Residential & 10% Non-Residential)	YES	2030	approx. 2035
Increased Capital Costs	YES	2030	approx. 2035
Variable Operating Expenses	YES	2024	2028
Rent Updates (8-year Average)	YES	2027	approx. 2030 to 2035
Third-Party Funding of Non-residential Rehabilitation	YES	2023	2028
Rent Updates, Increased Capital Costs, Wherry Demo Timing	YES	approx. 2030 to 2035	approx. 2035 to 2040
No LDAC	YES	approx. 2055	approx. 2075
Program Expenses Stabilized at $10 million	YES	2028	approx. 2035
Final Plan Variant			
Baseline Scenario	YES	approx. 2035	approx. 2045
Revenue Decrease (5% Residential & 10% Non-Residential)	YES	approx. 2045	approx. 2060
Increased Capital Costs	YES	approx. 2040	approx. 2055
Variable Operating Expenses	YES	approx. 2030 to 2035	approx. 2035 to 2040
Rent Updates (8-year Average)	YES	approx. 2035	approx. 2045
Third-Party Funding of Non-residential Rehabilitation	YES	approx. 2030	approx. 2040
Rent Updates, Increased Capital Costs, Wherry Demo Timing	YES	approx. 2040 to 2045	approx. 2055
No LDAC	NO	Not Completed	Not Completed
GMPA 2000 Alternative			
Baseline Scenario	YES	approx. 2040	approx. 2050 to 2055
Revenue Decrease (5% Residential & 10% Non-Residential)	NO	Not Completed	Not Completed
Increased Capital Costs	YES	approx. 2045 to 2050	approx. 2060 to 2065
Variable Operating Expenses	YES	approx. 2035	approx. 2045
Rent Updates (8-year Average)	YES	approx. 2040 to 2045	approx. 2055
Third-Party Funding of Non-residential Rehabilitation	YES	approx. 2030	approx. 2040
Rent Updates, Increased Capital Costs, Wherry Demo Timing	YES	approx. 2040	approx. 2055
No LDAC	NO	Not Completed	Not Completed
Timing of Wherry Housing Demolition	YES	approx. 2030	approx. 2035 to 2040
Program Capital Costs at $2 million	YES	approx. 2040	approx. 2050 to 2055
Resource Consolidation Alternative			
Baseline Scenario	YES	2030	approx. 2040
Revenue Decrease (5% Residential & 10% Non-Residential)	YES	approx. 2045	approx. 2060 to 2065
Sustainable Community Alternative			
Baseline Scenario	YES	2023	2029
Revenue Decrease (5% Residential & 10% Non-Residential)	YES	2028	approx. 2035
Cultural Destination Alternative			
Baseline Scenario	YES	approx. 2030 to 2035	approx. 2040
Revenue Decrease (5% Residential & 10% Non-Residential)	YES	approx. 2045	approx. 2060
Increased Capital Costs	YES	approx. 2045	approx. 2055
Variable Operating Expenses	YES	approx. 2030 to 2035	approx. 2040
Rent Updates (8-year Average)	YES	approx. 2045	approx. 2055
Rent Updates, Increased Capital Costs, Wherry Demo Timing	YES	approx. 2050 to 2055	approx. 2065 to 2070
Third-Party Funding of Non-residential Rehabilitation	YES	2030	approx. 2035 to 2040
Minimum Management Alternative			
Baseline Scenario	YES	2016	2018
Revenue Decrease (5% Residential & 10% Non-Residential)	YES	2017	2020

Notes:

(1) Financial self-sufficiency, as required by congressional mandate, is defined for the purposes of this analysis as FY 2013 total annual revenues in excess of FY 2013 total annual operating expenses.

These models have been prepared to compare different planning alternatives. They represent an illustration of what the financial results of the planning alternatives could look like based upon specific market, timing, financing, and operational assumptions. The results should not be relied upon or interpreted as a budgetary or accounting report or as controlling future implementation plans, decisions, or actions of the Presidio Trust.

Final Plan Alternative. Under the baseline modeling assumptions, the Final Plan Alternative is financially self-sufficient by 2013 and financially sustainable over the long-term (the implementation phase is estimated to be completed in 2029). If the variables were to change as assumed in the sensitivity analyses and all other assumed conditions were to remain unchanged, this alternative could be fully implemented roughly one year earlier or could require up to approximately 45 additional years to fully implement. The sensitivity in which the alternative is not estimated to be fully implemented until about 2075 assumes the LDAC project does not occur. Aside from this sensitivity, the timing of completion of the implementation phase ranges roughly from 2028 to about 2040.

Final Plan Variant. Under the baseline modeling assumptions, the Final Plan Variant is financially self-sufficient by 2013 and financially sustainable over the long-term (the implementation phase is estimated to be completed in approximately 2045). If the variables were to change as assumed in the sensitivity analyses and all other assumed conditions were to remain unchanged, this alternative could be fully implemented as much as 10 years earlier or could require up to about 15 additional years to fully implement. This range includes a scenario in which the alternative is neither financially self-sufficient nor sustainable over the long-term (i.e., the sensitivity assuming that the involving no LDAC project is not implemented).

GMPA 2000 Alternative. Under the baseline modeling assumptions, the GMPA 2000 Alternative is financially self-sufficient by 2013 and financially sustainable over the long-term (the implementation phase is estimated to be completed between approximately 2050 and 2055). If the variables were to change as assumed in the sensitivity analyses, this alternative could be fully implemented as much as 15 years earlier or could require up to an additional 10 years to fully implement. This range includes two scenarios in which the alternative is neither financially self-sufficient nor financially sustainable over the long-term (i.e., the sensitivity involving decreased revenues[1] and the sensitivity assuming that the LDAC project is not implemented).

Resource Consolidation Alternative. Under the baseline modeling assumptions, the Resource Consolidation Alternative is financially self-sufficient by 2013 and financially sustainable over the long-term (the implementation phase is estimated to be completed in approximately 2040). If the variables were to change as assumed in the sensitivity analyses and all other assumed conditions were to remain unchanged, this alternative could require up to an additional 25 years to fully implement.

Sustainable Community Alternative. Under the baseline modeling assumptions, the Sustainable Community Alternative is financially self-sufficient by 2013 and financially sustainable over the long-term (completion of the implementation phase is estimated for 2029). If the variables were to change as assumed in the sensitivity analyses and all other assumed conditions were to remain unchanged, this alternative could require up to an additional five years to fully implemented.

Cultural Destination Alternative. Under the baseline modeling assumptions, the Cultural Destination Alternative is financially self-sufficient by 2013 and financially sustainable over the long-term (the implementation phase is estimated to be completed in approximately 2040). If the variables were to change as assumed in the sensitivity analyses and all other assumed conditions were to remain unchanged, this alternative could be fully implemented as much as five years earlier or require up to an additional 30 years to fully implement.

Minimum Management Alternative. Under the baseline modeling assumptions, the Minimum Management Alternative is financially self-sufficient by 2013 and financially sustainable over the long-term (the implementation phase is estimated to be completed in 2018). If the variables were to change as

[1] A 10-percent decrease in non-residential rents and a five-percent decrease in residential rents.

assumed in the sensitivity analyses and all other assumed conditions were to remain unchanged, this alternative could require only an additional two years to fully implement.

The sensitivity analyses summarized below represent a small sample of the many variables that could change in unanticipated ways over time. They show that changing even one financial or implementation variable can significantly alter the financial performance of an alternative, sometimes only modestly, but sometimes significantly. When multiple factors are varied simultaneously, or in ways that may offset each other, the overall financial performance becomes even more uncertain.

B. REVENUE SENSITIVITY ANALYSIS

The revenue sensitivity analysis looked at a modest drop in rent revenues resulting from a potential downturn in the economy. In this sensitivity analysis, non-residential, per-square-foot rents were reduced by 10 percent and residential, per-square-foot rents were reduced by five percent (See Attachment F). All other modeling assumptions were consistent with the "base case" financial analysis in the Final EIS for each PTMP planning alternative. The results of this revenue sensitivity analysis are summarized below.

Final Plan Alternative. Overall, the estimated time required to complete the capital program is extended five years, from 2025 to 2030. Stabilized revenues are reduced by approximately $3.6 million. The estimated time required to complete the implementation phase is extended a few years, from 2029 to approximately 2035. Reducing both residential and non-residential revenues has only a moderate impact for the following reasons: (1) residential revenues generate a substantial portion of total revenues and are assumed, in this sensitivity, to be more stable (decrease of five percent, rather than the 10 percent reduction in non-residential revenues); and, (2) a sufficient amount of building revenues are generated by 2013 to sustain continued rehabilitation and revenue-generation during later years.

Final Plan Variant. Reducing the revenues had a relatively significant impact on the Final Plan Variant. Completion of the capital program is estimated to be extended 10 years to approximately 2045. Stabilized revenues are reduced by approximately $2.7 million. The estimated time required to complete the implementation phase is extended 15 years to approximately 2060 because funding of the capital replacement reserves occurs at a slower pace due to reduced stabilized revenues. Generally, the impact of this sensitivity is significant because the reduced revenues result in slim operating margins between roughly 2013 and 2030. Because there is limited cash available to fund non-residential rehabilitation, new revenues are not generated earlier in the planning period.

GMPA 2000 Alternative. Reducing residential and non-residential revenues in the GMPA 2000 results in the alternative not meeting its fiscal year 2013 self-sufficiency mandate. In fiscal year 2013, operating expenses are estimated to exceed revenues by $2.1 million. As a result, the alternative is also not financially sustainable in the long term. The reduced revenues result in limited cash during the early years (e.g., 2001 to 2010) of the planning period. Consequently, an insufficient amount of non-residential space can be rehabilitated by 2013 to generate revenues that will cover the operating expenses. This is also because the alternative performs marginally in the baseline scenario, making it more susceptible to downward market shifts.

Resource Consolidation Alternative. The reduced revenues sensitivity negatively impacts this alternative. The estimated time required to complete the capital program is extended roughly 10 years to approximately 2040. Stabilized revenues are reduced by approximately $3.2 million. The estimated time required to complete the implementation phase is extended up to 20 years to between approximately 2060 and 2065. The alternative has a high proportion of office space, which is more affected by the revenue decrease assumptions. Consequently, there is insufficient cash available to rehabilitate any non-residential buildings between 2013 and 2030.

Sustainable Community Alternative. The Sustainable Community Alternative is only moderately impacted by a decrease in residential and non-residential revenues. The estimated time required to complete the capital program is extended five years to 2028. Stabilized revenues are reduced by approximately $3.6 million. The estimated time required to complete the implementation phase is extended a few years, to approximately 2035. Because of the significant residential component of the alternative's land use program (whose revenues are less impacted than non-residential space in this sensitivity), sufficient cash is generated in early years of the planning period to fund non-residential rehabilitation. As a result, the revenues associated with this non-residential space sustain continued funding of capital projects after 2013.

Cultural Destination Alternative. The Cultural Destination Alternative is significantly impacted by the reduced revenues assumed in this sensitivity. The estimated time required to complete the capital program is extended between 10 and 15 years to approximately 2045. Stabilized revenues are reduced by roughly $4.0 million, the highest of any alternative (reflecting the alternative's higher amount of square footage). The estimated time required to complete the implementation phase is extended 20 years to approximately 2060. The significant impact of this sensitivity can be attributed to the fact that an insufficient amount of building revenues is generated by 2013 to sustain continued rehabilitation and revenue-generation during later years of the planning period (funding of non-residential rehabilitation is negligible between 2013 and 2030).

Minimum Management Alternative. Because of the robustness of the Minimum Management Alternative in the baseline scenario, the reduced revenues have only a minimal impact on the alternative. The time required to complete the capital program is extended by only one year, to 2017. Completion of the implementation phase is extended by two years to 2020. Stabilized revenues are reduced by approximately $5.3 million.

C. OTHER SENSITIVITY ANALYSES IN RESPONSE TO PUBLIC COMMENTS

In addition to the revenue sensitivity analysis, other sensitivity analyses were performed to assist the Trust in responding to public comments received on the Draft EIS. For this planning model, where there is not only a Plan alternative and a variant to that Plan, but also five other alternatives, modeling all sensitivities for all alternatives is both time-consuming and expensive. Rather than modeling sensitivities on all alternatives for all the issues raised in public comments, important questions raised by public commentors could be answered by looking at sensitivity analyses across a representative spectrum of the different planning alternatives. The spectrum represents the outer bounds of the full range of alternatives plus a mid-range alternative in terms of overall square footage, capital expenses, the land use mix, and other issues. These sensitivity analyses looked at the effect on financial performance of changing key assumptions involving rent updates, capital costs, operating expenses, and third-party funding. Additional sensitivity analyses performed to respond to a specific issue or question raised in public comment on a specific alternative include analyses of program expenses, Letterman Digital Arts Center revenues, and timing of demolition of Wherry Housing. The results of these sensitivities are discussed below.

1. Increased Capital Costs

In response to comments generally questioning the financial modeling assumptions, the Trust elected to look at a number of factors through sensitivity analyses because a re-review of the baseline modeling assumptions showed them to be reasonable. This sensitivity analysis examined what might happen to the financial results if capital costs turn out to be higher than currently assumed (See Attachment G). It is impossible to accurately predict what capital costs will be 30 (or even five) years into the future, and the current modeling assumptions are preliminary in nature. In reality, capital costs over the 30-year planning period may be higher or lower than current assumptions. Because higher capital costs present more of a financial management risk to a successful financial outcome over the long-term, higher capital costs were tested in this sensitivity analysis.

Specifically, all capital costs were increased by a reasonable 15 percent. Capital costs include costs associated with rehabilitating, upgrading, or newly constructing the Presidio's built and natural environments, including residential and non-residential buildings, interior improvements, roads, utility systems, water and sewer systems, electrical and telecommunications systems, forests, and open spaces, among other items. The specific impact on the alternatives is briefly discussed below.

- ***Final Plan Alternative.*** In the Final Plan Alternative, capital costs increase from $588 million to $669 million. Overall, this change has only a marginal impact on the financial performance of the alternative. The estimated time required to complete the capital program is extended by only five years to 2030. The estimated time required to complete the implementation phase is also extended by only a few years, from 2029 to approximately 2035. Increasing capital costs has only a minor impact on this alternative for one primary reason: strong and sustained residential revenues fund the rehabilitation of revenue-generating, non-residential space during the early years of the planning period. Thus, a sufficient amount of building revenues is generated by 2013 to sustain continued rehabilitation and revenue-generation during the later years of the planning period.

- ***Final Plan Variant.*** In the Final Plan Variant, capital costs increase from $614 million to $694 million. This change has a moderate impact on the variant's financial performance. The estimated time required to complete the capital program is extended by five years to approximately 2040. The estimated time required to complete the implementation phase, however, is extended 10 years to approximately 2055. The implementation phase is extended considerably because the capital program takes much longer to complete. Furthermore, while the capital program is being completed, reserve deficits continue to accumulate. Therefore, the maximum reserve deficit is higher than in the baseline scenario, and takes more time to fully fund. Thus, on the one hand, a large amount of existing residential space (1.5 million square feet) generates revenues early in the planning period that help to cover the increase in capital costs. But, on the other hand, total capital costs are very high ($694 million) so it takes quite a bit longer for the Variant to cover these costs during the later years of the planning period.

- ***GMPA 2000 Alternative.*** In the GMPA 2000 Alternative, capital costs increase from $520 million to $588 million. Overall, this increase exacerbates the already marginal performance of the alternative. The estimated time required to complete the capital program is extended by several years, from about 2040 to between 2045 and 2050. The estimated time required to complete the implementation phase is also extended by several years, from between approximately 2050 and 2055 to between approximately 2060 and 2065. Furthermore, the alternative exhibits cumulative negative cash flows between 2015 and 2019. This means that the alternative does not meet the financial self-sufficiency mandate. Increasing capital costs has a fairly significant impact on this alternative for one primary reason: residential and non-residential revenues are not large enough to fund the rehabilitation of revenue-generating, non-residential space during the early years of the planning period. Thus, a sufficient amount of building revenues is not generated by 2013 to sustain continued rehabilitation and revenue-generation during the later years of the planning period.

- ***Cultural Destination Alternative.*** In this alternative, capital costs increase from $562 million to $639 million. Overall, this change has a significant impact on the financial performance of the alternative. The estimated time required to complete the capital program is extended considerably, from between

2030 and 2035 to approximately 2045. The estimated time required to complete the implementation phase is also extended considerably, from about 2040 to approximately 2055. By 2030, the annual operating margin in this alternative is about $14 million less than the annual operating margin in the baseline scenario. This money represents cash that would otherwise be available to fund building rehabilitations and other capital projects. Increasing capital costs has a significant impact on this alternative for the following reasons: 1) residential revenues in early years are not large enough to fund the rehabilitation of revenue-generating, non-residential space during the early years of the planning period; and, 2) this alternative has a high proportion of new space, which generates less revenue.[2] Thus, a sufficient amount of building revenues is not generated by 2013 to sustain continued rehabilitation and revenue-generation during the later years of the planning period. As a result, this alternative has a slim operating margin through 2029.

In sum, PTMP planning alternatives that already perform strongly in the baseline scenario and have a large amount of existing residential space tend to be able to withstand an increase in capital costs better than PTMP planning alternatives that do not. A key driver of the financial performance of the PTMP planning alternatives is their ability to generate sufficient revenues during the early years of the planning period. Because existing residential space gets rehabilitated first in the PTMP financial analysis, alternatives that include a large amount of existing residential space are more likely to generate a critical mass of revenues early in the planning period. This critical mass of revenues then can be used to sustain the alternative (i.e., pay for non-residential rehabilitation and other capital projects) during the later years of the planning period.

In this sensitivity analysis, the GMPA 2000 Alternative does not withstand a significant increase in capital costs because its financial performance in the baseline scenario is already fairly marginal. The Cultural Destination Alternative is also substantially negatively impacted by a significant increase in capital costs because more than 40 percent of its residential space is new residential space which does not generate high revenues for the Presidio Trust. The Final Plan Alternative is minimally impacted by an increase in capital costs because it performs strongly in the baseline scenario and includes a high percentage (about 80 percent) of existing residential space, which is a high revenue-generating use for the Presidio Trust. Similarly, the Final Plan Variant is moderately negatively impacted by an increase in capital costs because it includes a high amount (1.5 million square feet) of existing residential space.

2. Variable Operating Expenses

A number of public commentors asked the Trust to determine the long-term variability in operating costs for the different PTMP alternatives. Although it is not possible over a 20- to 30-year financial horizon (or even over a much shorter horizon) to accurately predict cost variability, the Trust performed a sensitivity analysis to examine what might happen to the financial results of each alternative if some operating expenses were associated with total building square footage (i.e., that they varied depending on the amount of total square footage in the park). 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. Certain operating expenses do not vary by the amount of square footage in the park, including public safety, finance and insurance, financing, special events, and the level of annual program expenses assumed for each alternative. Two additional expense categories – releasing reserves and residential affordability subsidy – already vary in the PTMP financial model by the amount of total square footage. Based upon Trust staff review of the FY 2002 budget, 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,

[2] Only ground-rent revenues (20 percent of the associated building-rent revenues) are assumed to be collected by the Presidio Trust on newly constructed buildings.

planning, real estate services) varied by the alternative's total square footage (i.e., 75 percent of each of these operating expense categories were fixed and did not vary by total square footage). These spreadsheets are included as Attachment H. Thus, assuming the maximum total square footage is 6.0 million, alternatives with less square footage than the maximum would have somewhat lower total operating expenses. The specific impact of this change on the alternatives is briefly discussed below.

- ***Final Plan Alternative.*** In the Final Plan Alternative, the total square footage is 5.6 million (0.4 million square feet less than the maximum) and the estimated annual baseline (i.e., 2003 to 2006) operating expenses are $41.8 million.[3] Varying operating expenses by square footage lowers estimated annual baseline operating expenses about $600,000 to $41.2 million. This figure declines to $28.8 million in 2020 (stabilized). The slight reduction in operating expenses shortens the time required to complete the capital program by one year, from 2025 to 2024. Similarly, the time required to complete the implementation phase is shortened by one year, from 2029 to 2028.

- ***Final Plan Variant***. In the Final Plan Variant, the total square footage is 4.7 million (roughly 1.3 million square feet less than the maximum) and the estimated annual baseline (i.e., 2003 to 2006) operating expenses are $41.8 million. Varying operating expenses by square footage lowers estimated annual baseline operating expenses approximately $2.2 million to $39.6 million. This figure declines to a stabilized level of $27.8 million in 2020. The annual reduction in operating expenses accelerates the time required to complete the capital program from approximately 2035 in the baseline scenario to between 2030 and 2035. The estimated time required to complete the implementation phase is reduced between five and 10 years, to between 2035 and 2040.

- ***GMPA 2000 Alternative.*** In the GMPA 2000 Alternative, the total square footage is 5.0 million (1.0 million square feet less than the maximum) and the estimated annual baseline (i.e., 2003 to 2006) operating expenses are $41.8 million. Varying operating expenses by square footage lowers estimated annual baseline operating expenses about $1.7 million to $40.1 million. This figure declines to $28.1 million in 2020 (stabilized). The significant reduction in operating expenses shortens the time required to complete the capital program by about five years, from approximately 2040 to approximately 2035. Similarly, the time required to complete the implementation phase is reduced considerably, from between approximately 2050 and 2055 to approximately 2045. The relatively greater impact on the GMPA 2000 Alternative is due in part to the fact that the baseline scenario was in a state of marginal self-sufficiency during the middle years of the planning period. Decreasing operating expenses creates an additional $1.2 to $1.7 million per year in cash flow, which effectively doubles the cash available for capital projects in some years.

- ***Cultural Destination Alternative.*** Because the total square footage in this alternative (6.0 million) was the base from which the operating expenses were varied, estimated annual baseline operating expenses (and hence the financial results) did not differ from the baseline scenario.

In sum, operating expenses that are tied to square footage, such as facilities and operations, for example, will be lower in alternatives with less than the maximum of 6.0 million square feet. However, the majority of operating expenses at the Presidio are fixed and not tied to square footage, such as public safety and insurance (i.e., the Presidio Trust will have to cover these expenses regardless of how much square footage is in the park). Thus, while alternatives with lower total square footage performed somewhat better in this sensitivity analysis, the enhanced performance was not great. This is due to the following two reasons: (1) most operating expenses at the Presidio are fixed and not tied to square footage and (2) less total square footage reduces the overall revenue-generating potential of the Presidio, which in turn reduces its ability to pay fixed operating expenses and capital costs in a timely fashion.

[3] For the five categories: facilities, operations, legal, planning, real estate services.

3. Rent Updates (8-year Average)

A second revenue sensitivity was performed in response to public comments on the Draft EIS (See Attachment I). This sensitivity analysis examined what might happen to the financial results if key non-residential rental rates turn out to be lower than currently assumed. Commentors asked that the Trust update its non-residential rent assumptions used in the PTMP financial model. As a result, the Trust asked Sedway Group to re-examine whether the seven-year trended average office rental rates used in the Draft EIS financial analysis were reliable given the unusually high office rental 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. To dampen any upward bias from having included rates that were historically unprecedented, Sedway Group developed an eight-year average that included rates from the more recent market downturn. Using an eight-year average rather than a seven-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.

These eight-year trended rates were used as the basis for additional revenue sensitivity analyses to see what effect this change might have on the baseline modeling outcomes. In this sensitivity, the vacancy rate for all classes of office space was increased from 5 percent to 10 percent. These changed assumptions more closely reflected office market conditions as of early 2002 when the San Francisco office market was in the midst of a severe correction. Thus they are a reasonable representation of more pessimistic, long-term office market conditions. The specific impact on the financial outcome of the alternatives is summarized below.

- ***Final Plan Alternative.*** The Alternative calls for only a moderate amount of Class B office space (773,000 square feet[4]) and a small amount of industrial space (160,000 square feet). Thus, through 2013, the impact of reducing office and industrial revenues is negligible. Overall, the estimated time required to complete the capital program is extended by only three years, from 2024 to 2027. Stabilized non-residential revenues are reduced by approximately $2.5 million annually. The estimated time required to complete the implementation phase is extended a few years, from 2029 to between 2030 and 2035. Reducing office and industrial revenues has only a minor impact on this alternative for two primary reasons: (1) residential space generates a significant portion of total revenues; and (2) a sufficient amount of building revenues is generated by 2013 to sustain continued rehabilitation and revenue-generation during the later years of the planning period.

- ***Final Plan Variant.*** The Final Plan Variant, the Alternative proposed by the Sierra Club, assumes no Class B office space at the market rents cited above (i.e., all Presidio office space not encumbered by existing long-term leases is assumed to be leased to program-enhancing, mission-related tenants at "non-profit" rents). Therefore, Sedway Group did not adjust market-rate office rents or vacancy rates in the Final Plan Variant. The annual rental rate for industrial/warehouse space was reduced from $12.00 to $7.50 per square foot in this sensitivity analysis. This change did not significantly affect the overall financial performance because the variant includes a small amount of industrial/warehouse space (less than 100,000 square feet). Stabilized non-residential revenues declined by only about $0.4 million annually. As a result, the estimated time required to complete the capital program (approximately 2035) and the implementation phase (approximately 2045) remained unchanged.

[4] Excludes Letterman Digital Arts (LDAC).

- ***GMPA 2000 Alternative.*** The GMPA 2000 Alternative does not call for any Class B office space at the market rents cited above (i.e., all office space encumbered by existing long-term leases in the GMPA 2000 Alternative is reserved for mission-enhancing, non-profit tenants at lower rents). Therefore, Sedway Group did not adjust office rents or vacancy rates in the GMPA 2000 Alternative. The GMPA 2000 Alternative does call for a substantial amount of industrial space (490,000 square feet). However, in both the baseline scenario and this sensitivity analysis, industrial space is not able to be rehabilitated and leased during the 30-year planning period because there is insufficient cash available after higher revenue-generating uses (i.e., higher priority uses) are rehabilitated and leased. Thus, there is no change in the GMPA 2000 Alternative's financial results during the 30-year planning period. In later years, however, industrial space eventually does get rehabilitated and leased (sometime before 2040 and 2045 when the capital program is completed). The effect of leasing this industrial space at lower rents is minor. Overall, the estimated time required to complete the capital program is extended by a few years, from 2040 to between 2040 and 2045. At build-out (when the capital program is completed), annual non-residential revenues decline by about $1.9 million. As a result, the estimated time required to complete the implementation phase is extended a few years, from between 2050 and 2055 to approximately 2055.

- ***Cultural Destination Alternative.*** The Cultural Destination alternative calls for a large amount of Class B office space (1.0 million square feet[5]) and a small amount of industrial space (130,000 square feet). Thus, through 2013, the impact of reducing office and industrial revenues is significant. By 2013, there is about $16 million less in cash available to spend on rehabilitating space. This loss translates into about 107,000 square feet of space that is not rehabilitated by 2013 – space that would generate additional annual revenues.[6] In this sensitivity analysis, the estimated time required to complete the capital program is extended considerably, from between 2030 and 2035 to about 2045. Stabilized non-residential revenues decrease by approximately $3.1 million annually. As a result, the estimated time required to complete the implementation phase is also extended considerably, from 2040 to approximately 2055. Reducing office and industrial revenues has a significant impact on this alternative for three primary reasons: (1) the amount of office space is large and generates a significant portion of total revenues; (2) residential space generates a relatively smaller portion of total revenues; and (3) this alternative was already performing marginally between 2013 and 2030 in the baseline scenario.

In sum, a sustained downturn in the economy will likely have a greater impact on alternatives that rely heavily on market-rate office space to generate revenues. Those 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 impacted by reduced office rents. Reducing industrial rents has less of an impact because industrial space is not one of the primary revenue-generators for the Presidio (i.e., industrial revenues are small both per unit and as a percent of total revenues). Nevertheless, reducing these rents does extend the time required to complete the capital program and implementation phase. A deeper, more sustained recession in the future could reduce these and other rents even more – a scenario that would further extend the time required to complete the capital program and implementation phase. Thus, there is a considerable amount of uncertainty inherent in the PTMP financial model (and in any 30-year financial model for that matter). The financial results, therefore, should be viewed as reasonable rough estimates based on current reasonable assumptions, and not as precise (or even expected) predictions of future conditions.

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[5] Excludes Letterman Digital Arts Center (LDAC).

[6] The calculation is as follows: $16,000,000 in lost revenues divided by an average non-residential rehabilitation cost of $150 per square foot = 107,000 square feet.

4. Third-Party Funding of Non-Residential Rehabilitation

Several public commentors suggested that the Trust should have assumed that third parties would finance the rehabilitation of non-residential buildings rather than assuming as in the baseline assumptions that the Trust would fund all rehabilitation and third parties would fund all new construction. In response to these comments, this sensitivity analysis examines what might happen to the financial results of different alternatives if third parties (i.e., not the Presidio Trust) financed the rehabilitation of some non-residential buildings. In reality, during implementation, the Trust will have to find the appropriate balance between Trust funded versus third-party funded improvements.

In the PTMP financial modeling, the main advantage of this assumption is that third parties can rehabilitate buildings at the Presidio at any time, whereas the Presidio Trust-funded rehabilitation is constrained by the availability of cash. Thus, third-party financing could accelerate the pace of rehabilitation and hence revenue-generation at the Presidio. Presidio Trust-funded rehabilitation can still occur simultaneously. This advantage is weighed against a possible disadvantage that buildings that are rehabilitated by third parties generate lower rents for the Presidio Trust. The assumption here is that third parties who invest in rehabilitating buildings will expect a discount in rents to account for their capital investments. For the purposes of PTMP financial modeling analysis, it is assumed that this discounted rent equals 20 percent of market rent. Spreadsheets for this sensitivity analysis are included as Attachment J. The specific impact of this change on the alternatives is briefly discussed below.

- ***Final Plan Alternative.*** Third-party financing of rehabilitation slightly improves the performance of the Final Plan Alternative, which remains financially self-sufficient and becomes slightly more sustainable (i.e., the implementation phase is slightly shortened). However, the impact is minimal. This is because this alternative generates sufficient revenue during the early years of the planning period to fund a major rehabilitation effort, and therefore any benefit associated with third-party financing is relatively minor. Specifically, the impact on capital costs and revenues is as follows:
  (1) *Capital Costs.* Total capital costs are reduced by $87 million, from $589 million to $502 million. By 2013, about $321 million (or 64 percent of the total) in capital projects have been completed. By comparison, about $334 million (or 57 percent of the total) in capital projects have been completed by 2013 in the baseline scenario. Overall, the time required to complete the capital program is accelerated by two years, from 2025 to 2023.
  (2) *Revenues.* Because space rehabilitated by third parties does not generate as much revenue for the Presidio Trust, the stabilized annual operating cash flow is reduced by about $6.6 million. However, owing to reduced capital costs, the time required to complete the implementation phase is accelerated by one year, from 2029 to 2028.

- ***Final Plan Variant.*** Assuming third-party financing of some building rehabilitation improves the financial performance of the Final Plan Variant. The Variant remains financially self-sufficient in 2013 and becomes more sustainable (i.e., the implementation phase is shortened). Specifically, the impact on capital costs and revenues is as follows:
  (1) Capital Costs. Total capital costs are reduced by $86 million, from $614 million to $528 million. The level of capital projects completed by 2013 is unchanged ($295 million). However, overall, the estimated time required to complete the capital program is accelerated by about five years, from approximately 2035 to approximately 2030.
  (2) *Revenues.* Stabilized annual revenues decline by $4.5 million due to the reduced rents associated with buildings rehabilitated by third parties. However, because total capital costs are reduced and the rehabilitation schedule is accelerated, the estimated time required to complete the implementation phase is also accelerated by about a decade, from approximately 2045 to approximately 2035.

- ***GMPA 2000 Alternative.*** Third-party financing of rehabilitation also improves the performance of the GMPA 2000 Alternative, which remains financially self-sufficient and becomes more sustainable (i.e., the implementation phase is significantly shortened). In the baseline scenario, limited cash is available during the early years of the planning period to fund the rehabilitation of revenue-generating space. With third-party financing, more square footage can be rehabilitated and leased during the early years of the planning period and this effort improves the alternative's financial performance. Specifically, the impact on capital costs and revenues is as follows:

  (1) *Capital Costs.* Total capital costs are reduced by $81 million, from $519 million to $438 million. By 2013, about $264 million (or 60 percent of the total) in capital projects have been completed. By comparison, about $255 million (or 49 percent of the total) in capital projects have been completed by 2013 in the baseline scenario. Overall, the time required to complete the capital program is accelerated by about a decade, from approximately 2040 to approximately 2030.

  (2) *Revenues.* Stabilized annual revenues are reduced by $4.4 million because of the reduced rents associated with third-party funded rehabilitation. However, because of reduced total capital costs and accelerated completion of third-party funded rehabilitation, the time required to complete the implementation phase is accelerated by about a decade, from between 2050 and 2055 to 2040.

- ***Cultural Destination Alternative.*** Third-party financing of rehabilitation also slightly improves the performance of the Cultural Destination Alternative, which remains financially self-sufficient and becomes slightly more sustainable (i.e., the implementation phase is slightly shortened). But again, the impact is minimal. This is because this alternative also generates sufficient revenue during the early years of the planning period to fund a major rehabilitation effort, and therefore any benefit associated with third-party financing is relatively minor. Specifically, the impact on capital costs and revenues is as follows:

  (1) *Capital Costs.* Total capital costs are reduced by $75 million, from $562 million to $487 million. By 2013, about $280 million (or 57 percent of the total) in capital projects have been completed. By comparison, about $279 million (or 50 percent of the total) in capital projects have been completed by 2013 in the baseline scenario. Overall, the time required to complete the capital program is accelerated by a few years, from between 2030 and 2035 to 2030.

  (2) *Revenues.* Stabilized annual revenues are reduced by $6.1 million. However, the reduced capital program allows completion of the implementation phase to be accelerated by a few years, from approximately 2040 to between 2035 and 2040.

In sum, third-party financing of some rehabilitation work impacts the financial model in three important ways: (1) Total capital costs are reduced significantly; (2) Third-party financing accelerates the building rehabilitation; and (3) Because buildings rehabilitated by third parties generate less revenue for the Presidio Trust, annual revenues decline during the later years of the planning period. Thus, there is a trade-off associated with third-party financing. While third-party financing can help the Presidio 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 (i.e., the Presidio Trust would not be able to charge full market rents on buildings rehabilitated by third parties).

5. Rent Updates, Increased Capital Costs, and Timing of Wherry Housing Demolition

All of the above sensitivity analyses looked at the financial effect of varying only a single modeling assumption from the baseline scenario. To look at the potential effect of changing several of the modeling assumptions at the same time on the financial performance of alternatives, sensitivity analyses examined what might happen if revenue levels decreased (based on the updated eight-year average rents), capital costs increased, and the timing of Wherry Housing demolition was extended over the entire 30-year modeling period consistently across the alternatives (See Attachment K). The results are discussed below.

- ***Final Plan Alternative.*** The Final Plan Alternative remains financially self-sufficient and sustainable in the long term in this sensitivity. Because the timing of Wherry Housing demolition is phased over the 30-year planning period in the baseline scenario, this sensitivity effectively measures the combined impact of rent updates and increased capital costs. The time required to complete the capital program is extended between five and 10 years to between approximately 2030 and 2035. The time required to complete the implementation phase is extended similarly, to between approximately 2035 and 2040. Despite the combined negative impact of reducing revenues and increasing capital costs, the alternative is able to build a base of revenues in early years to fund continued non-residential rehabilitation after 2013.

- ***Final Plan Variant.*** Like the Final Plan Alternative, the timing of Wherry Housing demolition in the baseline scenario is assumed to be phased over the 30-year planning period. As such, this sensitivity measures the combined impact of rent updates and increased capital costs. The time required to complete the capital program is extended between five and 10 years, to between approximately 2040 and 2045. The time required to complete the implementation phase is extended by 10 years to approximately 2055.

- ***GMPA 2000 Alternative.*** Retaining portions of Wherry Housing through 2029 generates an additional $94 million in revenues between 2013 and 2029. Overall, these additional residential revenues are offset by the impact of the rent updates (reduced revenues) and increased capital costs. The time required to complete the capital program is unchanged at approximately 2040. Similarly, the time required to complete the implementation phase is extended only slightly, to approximately 2055.

- ***Cultural Destination Alternative.*** Retaining one-third of Wherry Housing from 2020 to 2029 results in an additional $39 million in revenues in this alternative. Despite the additional revenues, the combined effect of the rent updates and increased capital costs has a significant negative impact on the Cultural Destination Alternative. The time required to complete the capital program is extended from the baseline scenario by approximately 20 years, to between 2050 and 2055. The time required to complete the implementation phase is extended by between 25 and 30 years to between approximately 2065 and 2070. The alternative is not considered to be sustainable over the long term under the assumptions of this sensitivity.

In sum, retaining portions of Wherry Housing through 2030 results in significant additional revenues in the alternatives which do not incorporate this assumption in the baseline scenario (GMPA 2000 and Cultural Destination alternatives). This is offset by the cumulative negative impact of reduced revenues (rent updates) and increased capital costs. In the GMPA 2000 Alternative, the additional Wherry Housing revenues are sufficient to offset the negative impact of the reduced revenues and increased capital costs. In the Cultural Destination Alternative, however, the impacts of the reduced revenues and increased capital costs in the early years of the planning period (before 2013) are substantial and negate the positive impact of Wherry Housing revenues. Generally, the more robust the performance of the alternative in the baseline scenario, the less likely it will be significantly impacted by the revenue and cost assumptions of this sensitivity.

6. Letterman Digital Arts Center Revenues

Public comment on the Draft EIS suggested that the Letterman Digital Arts Center (LDAC) project was not needed to achieve financial self-sufficiency either for the Trust's preferred Plan or for the GMPA 2000 Alternative. To evaluate this comment, the Trust performed sensitivity analyses to evaluate the financial effects of eliminating the LDAC revenues and development costs. The LDAC agreement generates substantial revenue for the Presidio Trust (about $8.7 million a year for the Presidio Trust or about $215 million over 30 years). Spreadsheets are included as Attachment L. Eliminating these revenues (and the costs associated with the development) has a significant negative impact on the financial performance of the alternatives evaluated here.[7] Results of this sensitivity analysis are discussed below.

- ***Final Plan Alternative.*** The Final Plan Alternative is self-sufficient in 2013, but performs at marginal self-sufficiency between 2015 and 2029. In 2013, the operating margin (total revenues less total operating expenses) is only $3.1 million. Only $215 million in capital costs have been completed, a figure that represents only about 37 percent of the total. The time required to complete the capital program is extended considerably, from 2025 to approximately 2055. The time required to complete the implementation phase is also extended considerably, from 2029 to between 2070 and 2075. Thus, the alternative is only marginally self-sufficient and not sustainable over the long-term.

- ***Final Plan Variant*.** The effects of eliminating the revenues and costs associated with the LDAC development agreement was also performed for the Final Plan Variant in response to public comments (i.e., the same letter that encouraged the Presidio Trust to evaluate the Final Plan Variant indicated a strong preference for eliminating the LDAC project). Eliminating the revenues (and the costs) associated with the development has a significant negative impact on the Final Plan Variant. Without the LDAC revenues, the Variant does not satisfy the congressional mandate to reach financial self-sufficiency by 2013. Operating expenses exceed revenues by $3.3 million in 2013.

- ***GMPA 2000 Alternative.*** A sensitivity analysis looked at the impact of omitting the revenues and costs associated with the LDAC development agreement from the GMPA 2000 Alternative. Eliminating the revenues (and the costs) associated with the development has a significant negative impact on the GMPA 2000 Alternative. Without the LDAC revenues, the GMPA does not satisfy the congressional mandate to reach financial self-sufficiency by 2013. Operating expenses exceed revenues by $14.0 million in 2013.

The LDAC revenues are an important component of the financial performance of the PTMP alternatives. Alternatives that perform even moderately well in the baseline scenario (i.e., the Final Plan Variant) are not able to meet the self-sufficiency mandate without the LDAC revenues. An alternative that does perform well in the baseline scenario (Final Plan Alternative) is rendered effectively not financially sustainable.

7. Program Expenses

A specific sensitivity analysis conducted on the Final Plan Alternative increased stabilized annual program expenses from $5 million to $10 million. In this sensitivity analysis, annual program expenses are held constant between 2001 and 2006 at $2 million (as in the baseline scenario), and then gradually increased between 2007 and 2019 until they reach stabilization in 2020.

Because this alternative generates sufficient revenue during the early years of the planning period to rehabilitate buildings and generate future revenues, the impact of this increase is minimal. The time required to complete the capital program is extended only three years, from 2025 to 2028. The time required to complete the implementation phase is also extended only a few years, from 2029 to approximately 2035 in the sensitivity (See Attachment M). By the time annual program expenses begin to reach stabilization (and would thereby negatively impact the operating margin), a critical mass of revenue-generating space has already been rehabilitated and leased in this alternative. This critical mass

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

of revenue-generating space provides the operating margin necessary to sustain continued rehabilitation of additional revenue-generating space. Therefore, the impact of this increase in annual program expenses is minor and the alternative continues to be financially self-sufficient and sustainable over the long-term.

8. Timing of Wherry Housing Demolition

Several public commentors suggested that the demolition of Wherry Housing be delayed in the GMPA 2000 Alternative. In the baseline scenario, all of Wherry Housing was demolished in 2012, an assumption based on the timing provided in the 1994 GMPA that assumed complete implementation by 2010. To address commentors' concerns that this timing assumption biased the financial results for this alternative, this sensitivity analysis looked at the effects of incorporating a phased demolition of Wherry Housing identical to the timing assumptions of the Final Plan Alternative and Final Plan Variant alternatives. The sensitivity summarized below assumes that Wherry Housing is demolished in three phases: one-third in 2012, one-third in 2020, and one-third in 2030. Please refer to Attachment N.

This change significantly improves the financial performance of GMPA 2000 Alternative. The alternative benefits from an additional $105 million in residential revenues between 2012 and 2030. This additional revenue is then available to rehabilitate revenue-generating, non-residential space. As a result, the time required to complete the capital program is shortened considerably, from approximately 2040 to between 2030 and 2035. The time required to complete the implementation phase is also shortened considerably, from between 2050 and 2055 to about 2040. Thus, the alternative is financially self-sufficient and more sustainable over the long-term.

9. Program Capital Costs

Several commentors suggested that, because of the focus on mission-related, program-enhancing tenants providing programs in the GMPA 2000 Alternative, the Trust did not need to invest the same level of money in program-related capital projects in the GMPA 2000 Alternative as in other alternatives ($10 million). In response, the Trust evaluated a sensitivity that assumed only $2 million in program-related capital costs (This sensitivity analysis is also included in Attachment N).

This change has virtually no impact on the financial performance of the GMPA 2000 Alternative. The time required to complete both the capital program (approximately 2040) and the implementation phase (approximately 2050 to 2055) was unchanged from the baseline scenario.

IV. ASSUMPTIONS AND GENERAL LIMITING CONDITIONS

Sedway Group has made extensive efforts to confirm the accuracy and timeliness of the information contained in the financial model and this technical memorandum. Such information was compiled from a variety of sources, including interviews with Presidio Trust officials, review of Presidio Trust documents, and other third parties considered to be reliable. Although Sedway Group believes all information in the financial model and this technical memorandum is correct, it does not warrant the accuracy of such information and assumes no responsibility for inaccuracies in the information provided by third parties. We have no responsibility to update this report for events and circumstances occurring after the date of this report. Further, no guarantee is made as to the possible effect on development of present or future federal, state or local legislation, including any regarding environmental or ecological matters.

The accompanying projections and analyses are based on estimates and assumptions developed in connection with the financial model and this technical memorandum. In turn, these assumptions, and their relation to the projections, were developed using currently available economic data and other relevant information. It is the nature of forecasting, however, that some assumptions may not materialize, and unanticipated events and circumstances may occur. Therefore, actual results achieved during the projection period will likely vary from the projections, and some of the variations may be material to the conclusions of the analysis.

Contractual obligations do not include access to or ownership transfer of any electronic data processing files, programs or models completed directly for or as by-products of this research effort, unless explicitly so agreed as part of the contract.

This report may not be used for any purpose other than that for which it is prepared, that is for publication in the EIS. In the future, neither all nor any part of the contents of the financial model and this technical memorandum shall be disseminated to the public through publication advertising media, public relations, news media, sales media, or any other public means of communication without prior written consent and approval of Sedway Group.

The financial model was designed as an illustrative "planning" tool to test the comparative economic implications of different conceptual planning models for the Presidio. It was not designed to be a budgetary or accounting tool, and therefore, its results should not be interpreted as what *will* occur at the Presidio. Instead, its results should be interpreted as what *could* occur at the Presidio, given a certain set of planning, market, phasing, financing, and operational assumptions. It is important to note that the Presidio Trust has not determined the timing of rehabilitation, demolition, and new construction at the Presidio and, therefore, any timing assumptions included in the financial model should be interpreted only as a means to facilitate the comparison of EIS planning alternatives.

V. ATTACHMENTS