

Memorandum

To: Jean Fraser

From: Fort Scott Project Team

Re: Fort Scott Vision and Redevelopment Strategy

Executive Summary

The Fort Scott listening tour included 77 stakeholder conversations, two interactive design sessions, and an independent report from a social impact investment specialist. Based on this tour, we have developed a set of key questions and recommendations for consideration.

Proposed vision statement for Fort Scott

Fort Scott is a special place for transformational experiences. This curated ecosystem for social impact equips tenants and visitors to collaborate across sectors and solve some of our nation's greatest challenges. Focusing on the environment, veterans, and youth, Fort Scott will advance the Presidio's legacy of service by inspiring bold action and civic breakthroughs that will define the Presidio's impact beyond our walls.

Conclusions from listening tour

The research has determined there is significant interest in Fort Scott with:

- Office space designed for co-working (rentable desks/offices)
- On-campus temporary housing (dormitories and executive housing)
- An event and training center (meeting rooms and convening space)
- Auxiliary services to support the development of a collaborative environment (cafeteria, programming, landscape and backbone services)

Next steps

Proposed next steps in the redevelopment process:

- Develop real estate investment and financing plans
- Seek a partnership with one or more universities (via RFCP)
- Seek an operator for co-working office spaces (via RFCP)
- Bring food options (e.g. food trucks) to campus
- Develop the transit center at Fort Scott

Key questions about timing, capital and control

An important consideration is the Trust's desired control of Fort Scott and how it will impact funding, development models, timeline, and program options. There are three key questions for the Board that will determine the next steps for Fort Scott.

- 1) Do we want to develop Fort Scott in the next 3-6 years or 15-20 years?
- 2) If we want to move forward in the next 3-6 years, are we willing to give up long-term control of Fort Scott to a mission-aligned master developer?
- 3) Even if we are undecided on timeline/control, do we want to proceed with a public request for concept proposals to identify what mission-aligned developers, partners and operators would be willing to commit resources to be part of Fort Scott?

Stakeholder Meetings

Over the past six months, the Fort Scott project team has engaged in a listening tour with more than 60 stakeholders and individuals to discuss the project. These stakeholders include leaders from local and national nonprofits; academics and administrators; potential retail and corporate partners; representatives from federal and local government; representatives from foundations; social entrepreneurs; marketing and design experts; operators of co-working and incubation spaces; and many other friends of the Presidio and Fort Scott.

For a complete list of stakeholders engaged see appendix A.

Results of the listening tour include the following findings:

- There is significant interest from stakeholders for a location like Fort Scott that would unite mission-aligned tenants to advance social innovation and improve social impact in a variety of areas.
- Considering the history and legacy of Fort Scott, stakeholders support the proposed focus on these four areas of interest. However, they felt that the most exciting opportunities exist at the intersection of these issues versus providing spaces dedicated to each of these issues in siloes:
 - Veterans & Military Families
 - Youth Development
 - Environment
 - Public & National Service
- Based on the feedback from stakeholders and the vision created by the Presidio Trust Board for Fort Scott, the appropriate mix of the use of space should include:
 - Office space designed for co-working, incubators and accelerators
 - Meeting facilities built for training, education, and convening
 - Dormitory-style housing located on the Fort Scott campus and near the event and training center
 - Other auxiliary services—including food options, business center, general store, public gathering space, etc.—as required to support the community in residence and working at Fort Scott
- The most often discussed and attractive aspect of Fort Scott for potential users is access to the vibrant *ecosystem for social impact*. That is, organizations and individuals want to be part of a community that will help advance their own mission and increase their impact. This notion has been more popular than other incentives, such as subsidized rent, additional space, support services, etc. Therefore, the success of the project will depend

on attracting high-quality tenants to help perpetuate a thriving community and establish this as the value proposition.

- Many stakeholders have suggested that Fort Scott can fill a gap in the social impact world by focusing on action. Fort Scott could be a place where people gather to not only think and talk about major social change, but where action-forcing steps are taking to scale big ideas and achieve measurable impact. In order to meet this goal:
 - The user-base of the entire campus must be carefully curated—including sub-tenants and those in co-working spaces—by an entity that represents the Trust’s interests and vision for Fort Scott
 - Investments should be made in the types of people and programs that will incentivize, instruct, and assist the scaling of big ideas
 - Fort Scott should strive to be a center for design as it relates to scaling social impact and host practitioners of human-centered design and serve as design-thinking training center

- Based on the feedback from stakeholders, there were key concerns and negative feedback received. The following were shared by most stakeholders:
 - Very few organizations are interested in a large office footprint; the exceptions are co-working operators and institutes of higher learning
 - While some national organizations may be looking for an expansion to the West coast, there has been no interest to relocating a national headquarters to Fort Scott
 - Many stakeholders note that Fort Scott is “too remote” within the Bay Area, however the sentiment does not translate to national and international stakeholders who see the location easy to travel to and within a vibrant city they want to be in
 - The lack of access to public transportation is a consistent concern
 - Most stakeholders believe that a successful campus must have auxiliary services—such as food options, general store, fitness center, etc.—and the lack there of would be a major detractor
 - Questions regularly arise over how authority and control of the campus will distributed between the Presidio Trust, tenants, and sub-tenants – with specific questions about mission, desired impact, and how impact will be measured

For additional thoughts developed through the listening tour see appendix B.

Design Sessions

Beyond the stakeholder meeting, we hosted two separate design sessions to gather potential user feedback and spark idea generation. The first involved representatives from institutes of higher learning that could potentially use a portion of Fort Scott as a satellite campus for unique programs related to one of the four areas of interest—most likely public service. The second design session engaged social entrepreneurs and other thought leaders who represent the types of individuals and organizations that would populate and run co-working office space at Fort Scott. Each of these sessions provided a closer look at a viable user set for Fort Scott and allowed for the application of a user-centered design process in the initial plan development.

One potentially viable option that arose from the design sessions is to convert several buildings along the Fort Scott parade ground into dormitory-style housing.

- This type of housing would be utilized by both university students and by temporary visitors to campus for events or executive training when not in use by university students
- Ideally, the Presidio Trust could partner with a university that could:
 - Fund the renovation of the building(s)
 - Enter into a long-term lease for one or multiple buildings
 - Agree to terms that would allow the Presidio Trust and its agents use of a portion of the housing to accommodate campus visitors (The housing would not be open to the public, but would be used for programmatic use – from residential fellowships to youth development programs to executive training)
 - Partner on an educational program with universities to provide internships within organizations located at Fort Scott (or elsewhere on the Presidio) and teach skills of cross sector leadership
- The event and training center would be located near the housing and contain modular facilities that could be used as classrooms for the university, meeting space for co-working tenants, or as event space for external mission-aligned partners

Another potentially viable and complementary option is to convert any number of buildings along the Fort Scott parade ground into office space—specifically designed for co-working operations.

- Once renovated and redesigned, a building or multiple buildings would be leased to a single or multiple anchor tenants that match the mission and vision for Fort Scott and can build and operate co-working spaces
- The partnership would allow the tenants to obtain below-market rate lease terms in exchange for operating co-working spaces with sub-tenants that meet the criteria set forward by the Trust (i.e. a positive social agenda in the areas of veterans, youth, environment, and/or service)

- The Presidio Trust would also establish a mechanism within each managed agreement that would allow for oversight of tenant selection (i.e. ensuring 80% of tenants are mission-aligned) and a method of measuring overall impact (i.e. annual report of collective programs and impact)

Food and housing are important aspects of a successful plan in both scenarios. In particular, access to food is not only required for users who live and work on campus, but could also be a method of attracting the general public onto Fort Scott during the day and in the evenings. Likewise, a transit center at Fort Scott is a crucial element for delivering users for any purpose (including attracting Golden Gate Bridge visitors to patronize food and general stores at Fort Scott).

Many auxiliary services can be acquired through market-driven providers once the campus is fully populated, however some of these services may need to be subsidized by the Trust in the early phases of development.

For additional thoughts developed in the design sessions see appendix C.

Social Impact Investment

Achieving the project development goals outlined in this memorandum will require a unique development and financing structure that accommodates for the high cost of construction, relatively low rents and legal restrictions on the Trust's financing activities. Social impact capital¹ plays a central role in this proposed structure.

To date, development of Presidio Trust property has followed one of two models: (a) the Presidio Trust fully finances (100% cash on hand) the build out of a property and then leases it to one or more third parties; or (b) the Trust enters into a development agreement using a ground or base lease structure, and a third-party developer/operator commits all capital required for the build-out. These traditional development models are likely insufficient to accomplish the organization's goals for the development of Fort Scott. Equity returns for the types of programs recommended for the Fort Scott campus are unlikely to attract private risk capital, and financing the project with Trust resources will likely delay the completion of the project until 2038.

In response to these challenges, the Trust will need a new development/financing model. The recommended development structure is rooted in a master development approach similar to the one used in other parts of the Presidio development. By changing the terms of the underlying lease, the nature of the project sponsor/developer, and the capital stack used to finance the deal, the Trust can accomplish its goals for the revitalization of the Fort Scott campus.

- Project Sponsor – This structure requires an independent but mission-aligned non-profit sponsor/developer.
- Lease – The lease with the project sponsor should be much more robust than a typical lease. Elements of operational control, tenant approval, financing restrictions and asset maintenance/disposition should be included. Lease payments should be structured as a percentage of the project's cash flow. The Trust should retain a buy out option.
- Project Financing – Four sources of financing are employed in this model:
 - Historic Tax Credits
 - Social Impact Capital (structured as a mezzanine loan with at 2-5% interest only)
 - Traditional long-term debt (may be a mixture of bonds and traditional loans)

¹ For the purposes of this memorandum, "social impact capital" is defined as capital that is willing to forgo a full risk-adjusted market-rate economic return in exchange for an accompanying programmatic outcome. Other types of social impact capital are described in the Appendix.

- Credit enhancements (social impact investors willing to provide guarantees through construction)
- Project Scope – A preliminary analysis shows that this financing structure will likely require the exclusion of certain community facilities that generate relatively low rents. Those facilities can be included with additional philanthropic support or constructed using Trust funds when they become available. Depending on investor response and projected tenant demand, the project may be divided into two or three phases.

For additional details on social impact investments see appendix D.

Execution Strategy

An important consideration is the Presidio Trust's desired control of Fort Scott and the way it will impact funding and development models, timeline, and program options. There are two key questions for the Board that will determine the next steps for Fort Scott:

- 1) Do we want to develop Fort Scott in the next 3-6 years or 15-20 years?
- 2) If we want to move forward in the next 3-6 years, are we willing to give up long-term control of Fort Scott to a mission-aligned master developer?

Presidio Trust Funded Model

- Funding Model: Presidio Trust provides all capital (~\$150M)
- Timeline: Construction/completion in FY30-35 (phased) depending on availability of capital
- Program Options: Fully controlled by Presidio Trust

Pros

- Trust maintains long-term control over the buildings, programs, leasing and potential revenue
- Allows for current land use and capital priorities to remain the focus
- Could be phased as capital is generated
- Flexibility to develop the program with passage of time
- Trust could offer reduced rent to attract the desired mix of tenants

Cons

- Trust assumes all development and long-term operational risk
- Capital not currently scheduled for this purpose until 2030-2035
- Capital cost to Presidio Trust will be ~\$150M
- Presidio Trust cannot take advantage of Historic Tax Credits
- If schedule moves up before 2030 groundbreaking, it would displace other capital priorities (i.e. Main Post, West Letterman, etc.)
- Future Presidio Trust Boards may have alternative ideas for Fort Scott

Master Developer Funded Model

- Funding Model: Presidio Trust leases the buildings to a mission-aligned master developer and leverages Trust capital with philanthropy, social impact/program related investments, and market-rate capital
- Timeline: Construction/completion in FY19-24 (phased)
- Program Options: Partially controlled by Presidio Trust based on selection of mission-aligned master developer and restrictions including in agreement along with philanthropic donor wishes

Pros

- The master developer assumes all development and long-term operational risk

- Can identify mission-aligned developer and set restrictions to ensure public purpose and positive social impact
- Availability of Historic Tax Credits
- Mission-aligned developer could have leadership, expertise and governance structure best suited to curate *ecosystem for social impact*
- Leverages external funding (philanthropic and social impact financing) to reduce capital cost to Presidio Trust to ~\$10M for utility upgrades and site work (or up to \$50M if we want to maintain control of some buildings)
- Trust could include an option to “buy back” the improvements in 15-30 years if they are not meeting the desired social impact
- The creation of an *ecosystem for social impact* will produce positive social change; thus the opportunity cost of inaction is equal to the potential for social change that could occur at Fort Scott over the course of the next two decades

Cons

- Presidio Trust will give up long-term control to an external developer/operator
- Presidio Trust may not be seen as creating the impact or innovation happening at Fort Scott
- Social impact financing is an emerging field and Fort Scott may be the largest project to date utilizing this strategy (i.e. may not be able to attract all the necessary capital)
- RFCP process might not yield a mission-aligned partner the Presidio Trust would trust enough to give over control of Fort Scott
- If the concept, ecosystem or developer fails, Presidio Trust would have to “buy back” leases to ensure public and mission-related use; could impact long-range capital plan

Assuming the Trust was comfortable with moving forward and giving up some control to attract external capital and support for Fort Scott, the proposed execution strategy would establish four key goals for the redevelopment process via a public request for concept proposal process:

1. Establish a partnership with a well-suited institute(s) of higher learning to build a training center, dormitory-style housing, and food options
2. Create the conditions for a successful partnership(s) with a co-working office space operator(s)
3. Utilize unique financial vehicles to invest in the renovations of Fort Scott’s historic buildings earlier than Presidio Trust capital will be available
4. Attract and/or provide auxiliary services to support the growing campus and its users

The Fort Scott project team is proposing the following next steps to further the redevelopment process (timeline is assuming start date when Presidio Trust Board gives the green light and deems this a priority):

- Solicit and retain the necessary consultants and team members that will make up the Fort Scott project team in FY17 and beyond—including experts in co-working spaces, university partnerships, program related investment, and user-centered design (Month 1-3)
- Begin to implement pre-renovation “small bets”, specifically around auxiliary services such as the establishment of a basic transit center and partnerships with food trucks to bring retail lunch options to campus (Months 3-12)
- Announce a request for concept proposals (RFCP) and engage in public engagement process with universities, co-working operators, and event/training spaces interesting in participating in the re-development of Fort Scott (Months 6-12)
- Select set of RFCPs to transition into formal RFPs with full financial strategies to understand Presidio Trust capital requirements (Months 12-24)
- Select master developers, managed agreements, and long-term lease holders to begin construction on Fort Scott’s Phase 1 (1-2 buildings for event and training space, 1 building for food/catering, 1-2 buildings for office space, and 2-3 buildings for dormitories and temporary housing (Months 18-30)
- Complete Phase 1 construction and formally open Fort Scott (Month 48-60)

In order to take the next steps in the redevelopment process, the Fort Scott project team is requesting the board consider the following actions at the October retreat:

- Amend and approve the vision statements
- Authorize the funding required to continue the work of the Fort Scott project team (FY17-18), estimated: 2-3 FTE plus \$200,000/year
- Allow the Fort Scott project team to begin work on immediate next steps:
 - Develop real estate investment and financing plans
 - Seek a partnership with one or more universities
 - Seek an operator for co-working office spaces
 - Bring food options (e.g. food trucks) to campus
 - Develop the transit center at Fort Scott

For additional details on execution see appendix E.

Appendix A

Stakeholders engaged through the listening tour and design sessions

Listening tour conversations (**also attended a design session*):

- 1) Evan Burfield, 1776
- 2) Donna Harris, 1776
- 3) Richard Brown, American Express
- 4) Michael McDermott, Blackstone
- 5) Todd Connor, Bunker Labs*
- 6) Derek Distenfield, Bunker Labs*
- 7) Patrice Berry Addy, College Track
- 8) Wendy Spencer, Corporation for National and Community Service
- 9) Amber Schleuning, Department of Veterans Affairs Center for Innovation
- 10) Jon Robinson, Department of Veterans Affairs
- 11) James Weinberg, Fuse Corps
- 12) Les McCabe, Global Green USA
- 13) William Bridge, Global Green USA
- 14) Julia Matsudaira, Goldman Sachs
- 15) Nate Falkner, iMentor
- 16) Matt Spence, Andreesen Horowitz*
- 17) David Chasteen, Iraq and Afghanistan Veterans of America
- 18) Christina Maguire, Nation Swell
- 19) Gerard Choucroun, NCIRE*
- 20) Guido Kovalskys, Nearpod
- 21) Ellen LaPointe, Northern California Grantmakers
- 22) Steve Barton, Northern California Grantmakers
- 23) Lex Leifheit, San Francisco Office of Economic and Workforce Development
- 24) Mark Schulman, Presidio Graduate School
- 25) Zach Maurin, Service Year Alliance
- 26) Tom Schnaubelt, Stanford University Haas Center for Public Service
- 27) Virginia Tenpenny, Starbucks
- 28) Kim Winston, Starbucks Global Responsibility and Government Affairs
- 29) Ken Harbaugh, Team Rubicon Global
- 30) Jake Wood, Team Rubicon USA
- 31) Spencer Kympton, The Mission Continues
- 32) Daniel Lurie, Tipping Point Community
- 33) Sydney Smith-Heimbrock, US Office of Personnel Management (OPM)
- 34) Suzanne Logan, US Office of Personnel Management (OPM)
- 35) Mara Williams Low, Sobrato Center
- 36) Anthony Hassan, Cohen Veterans Network
- 37) Josh Fryday, Next Gen Climate Change
- 38) Chris Spence, Institute of the Golden Gate
- 39) Jay Banfield, Year Up
- 40) Becky Kanis Margiotta, Billions Institute
- 41) Marina Park, Girl Scouts of Northern California
- 42) Anne Wilson, United Way

X-Change program participants

- 43) Laurien Alexandre, Antioch University
- 44) Sandra Bass, UC Berkeley
- 45) Jen Gasang, San Francisco State University
- 46) Brett Hunt, Arizona State University
- 47) Elaine Ikeda, California Campus Compacts
- 48) Julie Lang, Tulane University
- 49) Jim Murray, Stanford University
- 50) Larry Rosenthal, UC Berkeley
- 51) Thomas Schnaubelt, Stanford University
- 52) Eric Schwarz, Citizen Schools
- 53) Maria Silva, University of San Diego

Design session participations:

- 54) Greg Galle, Future Partners
- 55) Toby Rosenblatt, Fort Scott Federal Advisory Council
- 56) Alice Chen, Teach for America
- 57) Joshua Bagley, Presidio Trust
- 58) David Hodgson, Hummingbird
- 59) Mike Slauch, VetTechTrek
- 60) Steve Weiner, VetTechTrek
- 61) Gert Christen, City Innovate Foundation
- 62) Penelope Douglas, Impact Hub & SoCap
- 63) Tanya Komar, Concrete Preservation Institute
- 64) Kirtee Kapoor, Davis Polk & Wardwell

Additional Staff and Consultants:

- 65) Paula Collins, Presidio Trust Board
- 66) John Keker, Presidio Trust Board
- 67) Frank Gonek, Presidio Trust
- 68) Michael Boland, Presidio Trust
- 69) Joshua Steinberger, Presidio Trust
- 70) David Smith, Presidio Institute
- 71) David Styers, Presidio Institute
- 72) Season Eckardt, Reimagining Service
- 73) Sarah Thorpe, Duotone
- 74) Dave Viotti, SMALLIFY
- 75) Lenny Mendonca, Presidio Institute Senior Fellow
- 76) Chris Marvin, Marvin Strategies
- 77) Dave Foster, Bastogne Development Partners

Appendix B

Additional thoughts from the listening tour

Creating an Ecosystem

In order to transform Fort Scott into a vibrant campus of mission-aligned tenants dedicated to addressing the key challenges of our time, the Presidio must attract the right users. Talented individuals and organizations will be attracted to Fort Scott if the campus can evolve into and be known as an *ecosystem for social impact*.

Imagine a diverse population of nonprofit and foundation professionals, academics, government agencies, and the general public, intermingling throughout co-working space, an event and training center, food and retail outlets, on-campus housing, and support services. It will be a hub for social innovation, cross-sector collaboration, and continued learning. The ecosystem will promote a free exchange of ideas and relationships, and the bustling campus will permeate with the infectious energy.

The Presidio will measure the success of the Fort Scott project by measuring both the utilization of the campus and by quantifying the aggregate social impact of the tenants.

Audience vs. Impact

The Presidio Trust has identified four areas of interest as part of the Fort Scott project – veterans, youth, environment and service. Within these parameters, the question arises: should the Fort Scott campus be designed to focus on directly serving each area as an audience, or should the campus community leverage each area to achieve broader positive social impact? For example, should the campus attempt to directly house homeless veterans, or should it host leading organizations that utilize the skills and experiences of veterans in continued service to community and environment?

In an ideal scenario, the Presidio can accomplish multiple goals by focusing on broad impact. The Fort Scott campus can create an ecosystem that will cultivate the potential of veterans, youth, environment, and service to help solve some of society's greatest challenges. Leveraging the synergy between multiple priority areas will achieve greater impact in a growingly interconnected world. For example, Boy Scouts can use the environment as a tool to teach youth about ecology and conservation, which in turn creates young men who will ultimately care for and preserve the environment.

Appendix C

Additional thoughts from the design sessions

Small Bets & Iterative Design

The theory of “small bets” was introduced to the Fort Scott design process during the second design session by the facilitators from Smallify. Stakeholders create and commit to low-risk experiments to discover, develop, and test an idea. Small bets give permission to move insights into action and move from ideas to innovation. Within the small bets process, stakeholders define what is “affordable loss” and determine steps that can be taken immediately with existing resources.

The theory and practice of making small bets has been embraced by the Fort Scott design team and can be seen in the immediate next steps for execution of the project. Likewise, as the project continues to develop, this process can be repeated multiple times creating a truly iterative design process. This method of design and development will allow the Fort Scott project team and Presidio Trust leadership to react quickly to new challenges and to ultimately create a campus that is designed around the needs and the potential impact of the end users.

Turning barriers into opportunities: “Fort Scott is too remote”

The design sessions were successful in identifying barriers to turning Fort Scott into an *ecosystem for social impact*. In one recurring theme, many stakeholders maintain that the campus is too remote to support typical office locations.

Despite the fact that Fort Scott is a mile or more from most public-facing infrastructure on the Presidio, it is easily accessible by car from US 101 via exit 439 and Lincoln Blvd. With its proximity to the Golden Gate Bridge Welcome Center, the entrance to Chrissy Field, and the historical coastal artillery batteries, the location of Fort Scott is ideal for attracting tourists onto campus in search of food, drink, resources, relaxation, or history. The development of a transit center on Fort Scott will not only help people get to work on campus, but will also naturally draw the general public onto the Fort Scott campus. Additionally, Fort Scott’s close proximity to multiple Presidio housing areas—including a relatively dense population in the Baker Beach Apartments—can help to support retail services on campus, especially in the evenings.

No doubt the location will still prove too remote for some potential tenants, which may limit the amount of buildings at Fort Scott that can be converted into traditional office space. By focusing on co-working arrangements, dormitory-style lodging, and event space, Fort Scott can cater to individuals who will utilize the campus one or two days per week as well as those who will be on campus just one or two days per year. A constant exchange of users will add to the energy and vibrancy of the campus. “Remoteness” can be an advantage to Fort Scott if the campus is seen as the ideal place to get away from the grind of daily life and become inspired – fulfilling the vision of Fort Scott to be a place for reflection and contemplation.

Potential programming

Thinking well into the future of Fort Scott, there will likely be a demand for programming that can deliberately bring together various users of the campus. Continued cultivation of the “ecosystem” will be required to preserve it. The Presidio Trust should determine the level of influence it aims to have in the cultivation of this “ecosystem” as that will determine the primary tenants and managed agreements we will seek during the RFCP process.

One way to engage the users of the campus with one another is through deliberate design of campus layout. By intermingling tenants and support services in each building, users would have a reason to walk in and out of many different buildings in a given day. For example, instead of placing a coffee shop, general store, and a copy center in the same building, spread them out amongst three buildings, each of which also contain office space.

Placing open co-working space in the middle of each floor with private spaces on the edges will require all tenants to interact throughout the day. Creating a central cafeteria will foster serendipity and build community as workers, students, trainees and visitors will interact over the lunch, dinner and happy hours.

Another method of engagement can be through Presidio-led campus programs to bring users together. These types of programs could include:

- Educational programming from a university partner
- Professional networking events
- Incentives for on-campus users to participate in Presidio Institute programs
- Evening events, such as concerts and movies
- Public attractions, such as bike rentals and a playground
- Engagement of local residents

Important themes

A number of themes were developed during the design sessions. The ones that stood out as the best representation of the vision for Fort Scott include:

- Service
- Leadership
- Innovation
- Citizenship
- Openness
- Bridge
- Retreat

Appendix D

Memorandum from Bastogne Development Partners

MEMORANDUM

TO: David Smith, Managing Director
FROM: Dave Foster, Bastogne Development Partners
RE: Development and Financing Structure for Fort Scott Redevelopment
DATE: August 31, 2016

1. Purpose. This memorandum outlines a proposed development structure for the Fort Scott revitalization project that attempts to solve for several project development challenges. The model uses social impact capital as a foundational element.

2. Background.

2.1. Current Development Models. One of the primary drivers in developing a timeline and program for the Fort Scott revitalization project is the project's financing structure. To date, development of Presidio Trust property has followed one of two models: (a) the Presidio Trust fully finances (100% cash on hand) the build out of a property and then leases it to one or more third parties; or (b) the Trust enters into a development agreement using a ground or base lease structure, and a third-party developer/operator commits all capital required for the build-out.

2.2. Limitations of these Models at Fort Scott. These traditional development models are likely insufficient to accomplish the organization's goals for the development of Fort Scott. Staff has determined that it will be unable to achieve its programmatic goals for the campus by relying exclusively on the traditional third-party development model. This model generally assumes that a for-profit developer/operator will seek to maximize returns and control the operations/tenanting of the project in a way that is unlikely to match with the goal of developing an ecosystem for social impact. The use of Trust funds to redevelop the Fort Scott campus would likely delay the start of the project for another seven years and mandate a relatively slow development schedule as funds are made available over time. Not only will this delay the campus' intended impact but the scale required to create the proposed campus "ecosystem" would not be possible if the campus is built out one or two buildings at a time over a decade.

2.3. Trust Development Restrictions. The ideal response to these challenges is to develop the project as a joint venture—use Trust funds in combination with

third-party capital in a way that permits accelerated development without sacrificing the Trust's goals for the project. While ideal in principle, this option is limited by restrictions on the Trust's finances and operations.² Among other things, the Trust is prohibited by statute and regulation from creating a subsidiary or closely related entity, taking on debt and pledging future revenues.

- 3. Conceptual Development Structure.** Achieving the Fort Scott development goals outlined in this memorandum will require a unique development and financing structure that accommodates for the high cost of construction, relatively low rents and legal restrictions on the Trust's financing activities. Social impact capital plays a central role in this proposed structure.

3.1. Role of Impact Capital

3.1.1. The term "social impact capital" includes a wide range of financing tools. For example, several groups have created funds that seek risk-adjusted market returns in socially impactful areas such as charter school and workforce housing development.³ Other tools, such as social impact bonds⁴, provide a return to investors based on the achievement of specific cost-savings goals such as a reduction in prison populations or improvement in health-related outcomes. A third category is the growing practice of structuring project/fund investments (debt, equity and debt guarantees) in a way that seeks a below-market financial return accompanied by a positive social outcome. A sub-set of this third category is Program Related Investment, whereby foundations invest a portion of their endowment in these types of investments for projects that align with the foundation's mission and grant making.⁵ It is this third category of impact capital that is central to the proposed model at Fort Scott.

3.1.2. The conceptual development structure outlined below would represent one of the largest social impact investments of this type to date.⁶ The Fort Scott project, however, is in many ways an ideal project for this type of financing structure. The opportunity for exceptionally

² See February 2016 Memorandum.

³ For an example see Turner Impact Capital (<http://www.turnerimpact.com/>)

⁴ A summary of social impact bonds and their potential is available from the Federal Reserve Bank of San Francisco (<http://goo.gl/25uGTd>)

⁵ For a good introduction to Program Related Investment, see the Stanford Business School Case Study of PRI at the Annie E. Casey Foundation (<https://www.gsb.stanford.edu/faculty-research/case-studies/annie-e-casey-foundation>)

⁶ A summary of selected social impact funded investments is included in Attachment 2.

strong operational partners, the strength of the Trust as a project sponsor, the notoriety and visibility of the project and the proposed programmatic focus for the new campus are all likely to be very attractive to a wide pool of investors. Additionally, there is strong and growing interest in this concept. By proving the viability of this model at scale with a strong and highly visible project, the Fort Scott development will pave the way for future investments of this type around the country. This will add another lasting component to the impact and legacy of the Fort Scott revitalization.

3.2. Development Model. The recommended development structure to advance this project is rooted in a master development structure similar to the one used in other parts of the Presidio development. By changing the terms of the underlying lease, the nature of the deal sponsor/developer, and the capital stack used to finance the deal, the Trust can accomplish its goals for the revitalization of the Fort Scott campus according to the program outlined in this memorandum. This structure also limits the need for true third-party equity (exclusive of tax credit equity), which provides maximum long-term asset control for the Trust and the ability to fully direct the campus' programming.

3.2.1. Project Sponsor: The first piece of this model is the creation of a project sponsor entity (or multiple entities) that is functionally aligned with the Trust and the project goals. This entity will be a single purpose entity with the sole function of developing, owning and operating the real estate. Ideally the entity will be a non-profit corporation. It may be a newly formed independent entity or related to a larger institution (e.g., a large academic partner). Identifying the right sponsor will require additional analysis of strategic partnership opportunities, the need for a larger balance sheet, operating experience and potential sources of impact capital. Regardless of the nature of the project sponsor, the entity will ultimately integrate into a larger for-profit structure tied to the monetization and transfer of tax credits and depreciation. The sponsor should be fully aligned with the goals of the Trust on this project and able to receive/build the capital stack required to make this project viable. Legal counsel has advised that the Trust cannot participate in the governance of this new entity. Instead the Trust should ensure that the mission and governance of the organization matches the Trust's goals, and the lease between the Trust and the new entity should establish the framework for the control that the Trust seeks.

3.2.2. Lease: The lease between the Trust and the new entity should include four primary concepts: subordinated cash-flow rent, operating restrictions and oversight, a landlord/owner capital fund, and a buy out option. These four components allow the Trust to effectively inject

capital into the project while maintaining a financial upside and establishing operational and long-term control of the project.

3.2.2.1. *Subordinated Cash-Flow Rent:* First, the economic terms of the lease should provide for a fully subordinated cash-flow participation rent. This rent structure would call for no guaranteed rent and instead would charge “rent” in the form of a split of the project’s free cash flow. In this way, the Trust effectively becomes a business partner. Although it cannot contribute capital into the structure, by offering a \$0 up-front rent structure with participation in net cash flows, the Trust can contribute value into the transaction. The specifics of the net cash flow participation will have to be further fleshed out along with the other terms of the deal, but it should be assumed that the Trust will take a majority of the cash flow after operating expenses, reserves and debt service. In this way the Trust can participate in the upside of the transaction similar to the way it would if it was the primary equity provider or project sponsor. This assumes that the project can be financed without additional traditional equity (not including tax credit equity). If traditional equity is required for a portion of the development, it is likely that the Trust will still be able to participate in net cash flows but not at the same level.

3.2.2.2. *Operating Control:* Second, the lease should include a detailed set of operating restrictions and should provide a means for the Trust to effectively participate in the governance of the sponsor entity. Examples may include landlord rights over tenant selection, deal terms, financing/re-financing restrictions, transfer of control/ownership, etc. In effect, the lease becomes similar to an operating agreement in its effect. Such an arrangement would not typically be acceptable to a project sponsor, but in this case the sponsor should have limited economic interest in the transaction and instead be focused on achieving the goals that the Trust has articulated.

3.2.2.3. *Landlord Capital Fund:* Third, the lease should include a Landlord capital fund. One of the risks of structuring the transaction in this way is that the sponsor will be thinly capitalized and without incentive to contribute additional capital. This can be problematic in meeting unanticipated capital needs. There are two ways to address this risk. The first is to include a reasonable capital reserve in the initial financing. The second is to capitalize a Landlord Capital Reserve Fund using Trust funds as they become available (likely at a much smaller scale but on an accelerated timeline vs. what is currently anticipated).

3.2.2.4. *Buy Out Option:* Finally, the lease terms should include a buy out option for the Trust to buy some or a portion of the assets as its own funding allows. Based on current assumptions, such a buy out option will likely need to extend until 2030 or beyond. Under current projections, the Trust could begin repurchasing assets in 2020. Ideally the terms of the buy out would equal the cost of the improvements less accumulated depreciation or specifically identified CAPEX requirements. The details of such an arrangement will again depend on whether third-party equity is required in the capital stack.

3.2.3. **Capital Stack:** The third piece of what makes this development structure viable is the project's proposed capital stack. Given the compelling mission of the project, it is proposed that the project is financed using three primary sources: Federal Historic Tax Credits of \$16-20M; \$15-30M in social impact financing and \$60-75M in conventional debt.⁷

3.2.3.1. *Historic Tax Credits.* It is assumed that federal historic tax credits will be available for most of the core and shell development. Assumptions for the credits include a price of \$.90, a 2% annual preferred return and a 5% put. There are some challenges to structuring tax credit financings with a non-profit sponsor, but those challenges are surmountable in a deal of this size. There is sufficient credit value to justify the increased legal/compliance costs associated with a more complex ownership structure. The tax credits should generate at least \$16-20M in equity across the whole of the project.

3.2.3.2. *Impact Financing.* Social impact financing would come into the project in the form of mezzanine debt. The proposed terms would be ten-year interest-only debt at 2-5%. Unlike social impact bonds, this financing is not likely to be tied to specific project outcomes. The request for funding will be similar in some ways to a detailed grant application—investors will likely look for a detailed description of proposed program outputs and outcomes and annual reporting. The debt, however, is unlikely to be secured by a pledge against specific outcomes. Likely it will be tied to continued operations consistent with the proposed plan.

3.2.3.3. *Conventional Debt.* There should be several options for the first-position debt on the project. Tax-exempt bonds may be available for the dorm portion of the project, and taxable bonds and other forms of long-term fixed-rate debt will be available for the non-dorm

⁷ Financial modeling assumptions are outlined in Attachment 1.

portions of the project. The overall project financing is proposed at 60% LTV, but the dorm portion of the project may be able to go to 70-75%. If the project sponsor is affiliated with a large institution, it may have the access to general obligation borrowing as well.

3.2.3.4. *Credit Enhancements.* As needed, potential social impact investors may be willing to lend their balance sheet as a form of credit enhancement. This is becoming a preferred form of social impact investment for some foundations. Given the nature of the single-purpose non-profit development sponsor, it is likely that this enhancement will be required, particularly through construction and stabilization. Sequencing the development schedule will reduce the size of the required enhancement.

3.2.4. **Project Scope:**

3.2.4.1. *Overall Approach.* Although additional work is required to fully build the financial model, it is likely that this model will not accommodate the development of the full campus as it is currently planned. Certain buildings do not generate sufficient rent to support their construction costs and may need to be developed using Trust funding or a philanthropic subsidy. Buildings 1214 (Sports Rental/Bike Shop), 1220 (NPS Tours), 1221 (Security), 1224 (Food Court) and 1225 (Catering) are first on that list. With these buildings removed, the project generates a stabilized debt service coverage ratio of 1.21, which should be sufficient to finance the project. Each of the buildings listed above puts additional strain on the coverage ratio. It is not apparent that the absence of these facilities would materially impact the revenue projections for the rest of the campus (e.g. lower office rents without a food court), but that assumption will need to be verified. Options for developing these facilities include private philanthropy (which could be blended with the proposed project funding) or direct development by the Trust. Finally, the Trust should look at whether site work related to the project could be absorbed by the Trust to provide additional strength to the development model.

3.2.4.2. *Phasing.* Under this concept, phasing for the project will be driven primarily by financing considerations and tenant absorption projections. In the current analysis, it appears likely that the dorm space may have a more predictable and immediate revenue stream. The shared workspace and community facilities may require more time to build demand. It is reasonable to plan the project in two to three phases, which would reduce the first social impact capital raise to \$6-15M.

4. Next Steps

- 4.1. The next step is to refine the development model and proforma to create a base case under the development and financing assumptions outlined above. Tax credit pricing, rent assumptions and absorption should all be tested to determine the strength of the projected cash flows and their sensitivity to changes in the market.
- 4.2. Beyond that, the Trust should develop an overview presentation and meet with potential investors to judge both interest and pricing.⁸ The development model below assumes the availability of \$15-30M of impact capital that would be raised and deployed in one to three rounds, depending on investor interest and the project development timeline.

⁸ A sample list of potential investors is attached in Attachment 3

Attachment 1: Assumptions

Assumptions

The conceptual development/financing structures below reference the three primary uses identified in this memorandum: dormitory/hotel (1216, 1217, 1218); office (1201-08); retail/public use (1213, 1214, 1220, 1224) and community use (1219, 1221, 1225, 1226, 1227, 1230)

Total development costs for all projects are the costs used in the proforma.

Rents are assumed at the rates noted in the attached proforma.⁹

Historic Tax Credit Pricing at a minimum of \$.90, with a 2% annual preferred return and a 5% put.

⁹ Proforma and construction/rent assumptions provided by Presidio staff.

Attachment 2: Summary of Selected Social Impact Investments

Bay Area Transit Oriented Affordable Housing Fund

(<http://bayareatod.com/>) is a \$50M social impact loan fund that seeks to promote the development of affordable housing and other vital community services near transit lines throughout the Bay Area. The fund offers several different loan products, up to 110% LTV. Rates range from 4.25%-5.25%.

East Baltimore Revitalization Initiative (<http://www.ebdi.org/>) offers several strong parallels to the Fort Scott revitalization effort. The revitalization effort is headed by East Baltimore Development Inc. EBDI is an independent non-profit corporation that was formed for the purpose of revitalizing the East Baltimore Neighborhood. Formation of the organization was led by Johns Hopkins, the Annie E. Casey Foundation and the City. EBDI is leading a development program in excess of \$1.5B across 88 city blocks. This project does not have a great history (some success, but community opposition around eminent domain and other issues)—however, the problems with EBDI do not relate to the situation at Fort Scott. Although the scale and approach of EBDI are quite different from the Fort Scott project, the parallel is the establishment of a third-party non-profit development entity and the use of social impact capital to fund early phases of development. In particular, the Annie E. Casey Foundation used no-cost guarantees to induce the necessary lending for the project. Additionally, several projects were financed using subsidized capital.

Living Cities Catalyst Fund (<https://www.livingcities.org/work/catalyst-fund>) is a \$31M blended fund that uses impact capital and traditional debt to create a blended rate of 4.5 – 6.5% for high risk investments that test innovations aimed at improving urban conditions.

Woodward Corridor Investment Fund

(<http://www.capitalimpact.org/what/strategic-financing/woodward-corridor-investment-fund/>) is a \$30M loan fund that targets mixed-use projects along the Woodward Avenue Corridor in Detroit. The fund is backed by several banks and large foundations, which allows the fund to issue loans under terms that are otherwise unavailable in the market.

Healthy Neighborhoods Equity Fund (<http://www.hnefund.org/>) is a \$30M equity fund that serves as gap financing for TOD and other projects aimed at improving the health of Massachusetts residents. The fund generally invests in an equity position for ten years and seeks a 10% IRR.

Attachment 3: Potential Impact Investors

The following organizations are either specifically mission-aligned with the Fort Scott project or particularly active in social impact investing.

Mission Investors Exchange (MIE) is a national network of over 250 philanthropic and mission-aligned investors in the impact investing market.

Annie E. Casey Foundation

California Endowment

San Francisco Foundation

The David & Lucille Packard Foundation

Stanford University

Calvert Foundation

The Reinvestment Fund

Rockefeller Foundation

Kresge Foundation

The Case Foundation

Omidyar Network

Appendix E

Additional details on execution strategy

Food trucks

The next “small bet” that can be made in the redevelopment of Fort Scott is to attract food trucks. Begin with one food truck on one day each week and set a goal to have a different food truck on campus everyday of the week. There is little to no investment necessary from the Presidio Trust. Food truck operators would likely be glad to get access to a location near tourists visiting the Golden Gate Bridge and the historic coastal batteries. By positioning a food truck(s) near the intersections of Ralston Ave. and Lincoln Blvd., the trucks would serve both tourists and on-campus users (Fort Scott currently has 70,000 square feet of tenants with no food options).

Transit center

Another step that can be taken in the short-term is the establishment of a transit center near the intersection of Lincoln Blvd. and Storey Ave. Eventually, this transit center could support a café or general store—similar to the transit center on Main Post—but in the near term, simply creating a municipal bus stop would both increase access for users and bring more of the general public to campus. This has been part of the long-term transportation plan, and by moving this up the infrastructure will be in place for Fort Scott to flourish. Without it, it is difficult for many potential tenants to envision what accessibility could look like.

Event and training center

The most resounding feedback from both the listening tour and the design sessions was the need for convening space. Potential on-campus tenants and visitors alike indicated their desire for modular classrooms and event space that could be used for educational and training purposes. Based on the insights from the X-Change program session with academic leaders, the opportunity to combine an on-campus undergraduate educational experience with a training center is ideal. A university partner could help invest in the infrastructure and services needed to supply students to regularly fill classrooms. Alongside the undergraduates, both on-campus tenants and external partners could reserve event space for a fee to host conferences and professional trainings. The Presidio Trust should explore methods of financing the early renovation of building 1226 as an event and training center – including philanthropic support, as this space would be most attractive to a donor.

Anchor tenant strategy

An anchor tenant is defined as a tenant that establishes a lease directly with the Presidio Trust for a large allocation of space—likely one building or more. The anchor tenant will then sub-let portions of the building(s) to other tenants. This is an ideal scenario for a co-working operator. In order to ensure that the arrangements meet the vision of Fort Scott, the terms of the lease would have to include provisions about the types of sub-tenants the co-working operators allowed to occupy the space. In exchange for a lease below market rates, the co-working operator would ensure that a significant portion of the sub-tenants meet the criteria

set forth by the trust and therefore contribute to the creation of an *ecosystem for social impact*. Additionally, to help achieve the necessary value proposition to fill the co-working space, operators focus on regular programming and attracting donors/investors to the space.

The anchor tenant strategy removes from the Presidio the burden of day-to-day management, tenant acquisition, lease servicing, etc. The lease rates offered and the ease of filling the space will be a factor in how many Fort Scott buildings are able to be used as co-working space or other office space arrangements. Therefore, when renovating the buildings, the Presidio should opt for open floor plans not only suited for co-working, but also easily modifiable as required by changing demand over time.

Most likely, renovations on buildings intended for anchor tenants will be accomplished through an application of social impact investments.

Potential anchor tenants

- 1776
- Sobrato Center
- Impact Hub
- We Work
- The Bunker
- Hattery
- Hatchery

University partner strategy

Partnering with a university to create a satellite campus on Fort Scott is an ideal scenario for many reasons. Not only will a university increase diversity and energy to the campus, but also a university may be able to become an investment partner for the building renovations. If provided with a long-term lease, a university can afford to invest in the renovations of buildings for use as dormitories. Within the arrangement the Presidio should request access to between one-quarter and one-third of the dormitory rooms at any given time to support housing for the event and training center and residential fellowship programs. Prior to welcoming students, the campus would need to have basic on-campus auxiliary services—specifically housing, utilities, food, classrooms, and hygiene services.

It is possible to envision a partnership with a single university or with multiple universities. In order to maintain alignment with the vision of Fort Scott, the university programs offered on-campus should mirror the priority areas of interest—most likely public and national service.

Most likely university partners

- Stanford University
- Presidio Graduate School

- Arizona State University
- University of California
- William and Mary
- Antioch University
- Tulane University
- University of San Diego
- Georgetown University
- Columbia University
- Harvard University
- Dartmouth University

Potential auxiliary services

- Food (cafeteria and evening and late night options)
- Housing (including private bathing)
- Utilities (e.g. electric, phone, television, internet)
- Trash & recycling
- Transportation
 - Parking
 - Transit center
 - Bike share
- Coffee shop / café
- General store (e.g. CVS)
- Business and postal services (e.g. FedEx Office)
- Social spaces (e.g. study lounges, courtyards, pathways, benches, bar/cantina)
- Recreation (e.g. fitness center, sports equipment rental, playground)
- Childcare
- Public “attractions” (e.g. art installations, carousel, etc.)
- Laundry services, including dry cleaning
- Shared operations for tenants (e.g. accounting, PR/marketing, HR, IT)

Appendix F

Bios of project consultants

Dave Foster is the founder and CEO of Bastogne Development Partners, a development and advisory firm that works across the US to deliver social impact real estate projects. BDP's work includes affordable and workforce housing, mixed use commercial buildings and community health projects. BDP specializes in developing and financing projects with tax credit, philanthropic and social impact capital. Dave is a former military officer and attorney with more than a decade of experience in real estate development. From 2008-2014 he led Cooper's Ferry Partnership, a nonprofit economic development corporation in Camden, NJ. In that role he partnered with city government, private industry and local hospitals and universities to transform the city's downtown. He has also worked in private law practice and with a large development company in Shanghai, China. In 2012, he returned to military service to lead the economic development effort for the NATO counter corruption task force in Afghanistan. Dave has a B.A. in Economics and Politics from Washington & Lee University and a J.D. from the University of Pennsylvania Law School, where he also received a Certificate in Business and Public Policy from the Wharton School.

Chris Marvin is the principal for Marvin Strategies, a strategy and communications consulting practice that specializes in social innovation, civic engagement, defense policy, and the veteran narrative. Chris is the founder and former executive director of Got Your 6, a nonprofit campaign that advocated for accurate portrayals of veterans in film, television, and popular media. Chris served for seven years as a US Army officer and Black Hawk helicopter pilot and is a combat-wounded veteran of the war in Afghanistan. Chris is a regular contributor to MSNBC, The Wall Street Journal, The Washington Post, National Public Radio, and The Huffington Post. He holds a bachelors of business administration from the University of Notre Dame and an MBA from the Wharton School of the University of Pennsylvania.

Lenny Mendonca is a director emeritus (retired senior partner) from the Washington D.C. and San Francisco offices of McKinsey & Company, a global management consulting firm. Lenny founded McKinsey's U.S. state and local public sector practice. For many years Lenny led the Firm's knowledge development efforts overseeing the McKinsey Global Institute and the Firm's communications, which includes the McKinsey Quarterly, and served for a decade on the McKinsey Shareholder Council (its board of directors). His client work focused on service to public sector organizations, and over the course of his career he helped dozens of government, corporate, and nonprofit clients solve their most difficult management challenges. Lenny is the Chair of Children Now, co-Chair of California Forward, and founder and Chair of Fusecorps. He is the Chair Emeritus of the Bay Area Council and the Economic Institute of the Bay Area, and was vice-chair of the Stanford Graduate School of Business Advisory Council. He serves on the boards of The New America Foundation, The Committee for Economic Development, Common Cause, the Bay Area Science and Innovation Consortium, and The California Business for

Educational Excellence Foundation. He is a member of the Council on Foreign Relations and the Board of Trustees for Junior Statesmen of America. He received his MBA and certificate in public management from the Stanford Graduate School of Business. He holds an AB, magna cum laude, in economics from Harvard College. Lenny lives on the Half Moon Bay coast, south of San Francisco, with his wife and two daughters, where he is the founder and owner of the Half Moon Bay Brewing Company.

Dave Viotti is the Founder and CEO of SMALLIFY (www.smallify.it), a global innovation firm based in Menlo Park, California. Through SMALLIFY, Dave has delivered rapid innovation labs to thousands of innovation leaders in corporate, start-up, government, and non-profit organizations, including the White House, Pfizer, Salesforce.com, Hewlett Packard, PBS, the Robert Wood Johnson Foundation, the David and Lucile Packard Foundation, Stanford University, the State of California, the Cities of San Francisco, Los Angeles, San Jose, Seattle, and many others. Dave serves on the faculty of the Executive Leadership Program at U.C. Berkeley's Haas School of Business. He is a co-founder of the Westly Prize for Young Innovators in California, Fuse Corps, the Civic Accelerator at Points of Light, and the Collaborative Solutions Lab at the Presidio Institute. Dave is a former U.S. Chief Learning Officer and Corporate Counsel at Sun Microsystems and Henry Luce Scholar at the Hong Kong Legislative Council. Dave received his undergraduate and law degrees from Georgetown University and a masters in international relations from Oxford University as an Allbritton Scholar.