FORT MONROE

Where Freedom Lives

FORT MONROE ECONOMIC MODEL REVIEW

Presentation to the Board

December 18, 2015

Fort Monroe Authority

bae urban economics

AGENDA

1. Economic Framework Overview
2. FMA's Charter and Financial Goals
3. 2013 Master Plan & Background
4. 2013 Fort Monroe Economic Model
5. Sales and Leasing Strategies

ECONOMIC FRAMEWORK OVERVIEW

1. FMA'S CHARTER: LONG TERM OPERTIONAL REQUIREMENTS

2. LAND USE MASTER PLAN: LEVEL AND MIX OF REVENUE-GENERATING USES

3. MIX OF LEASED PROPERTIES AND FEE SALES: STREAM OF ONE-TIME AND ONGOING REVENUES

4. LONG-TERM FINANCIAL INDEPENDENCE: NEED FOR OTHER ONGOING REVENUE-GENERATING ACTIONS

5. ONE-TIME AND ONGOING REVENUES: MATCH TO FMA'S LONG-TERM LEVEL OF OPERATIONS AND CIP

FMA’S CHARTER AND FINANCIAL GOALS

THE ECONOMICS OF FORT MONROE IS DRIVEN BY ITS CHARTER

"*4. It is the policy of the Commonwealth to* ***protect the historic resources*** *at Fort Monroe,* ***provide public access*** *to the Fort's historic resources and recreational opportunities,* ***exercise exemplary stewardship*** *of the Fort's natural resources, and* ***maintain Fort Monroe in perpetuity as a place that is a desirable one in which to reside, do business, and visit, all in a way that is economically sustainable.***"

PRESERVE HISTORIC BUILDINGS & GROUNDS

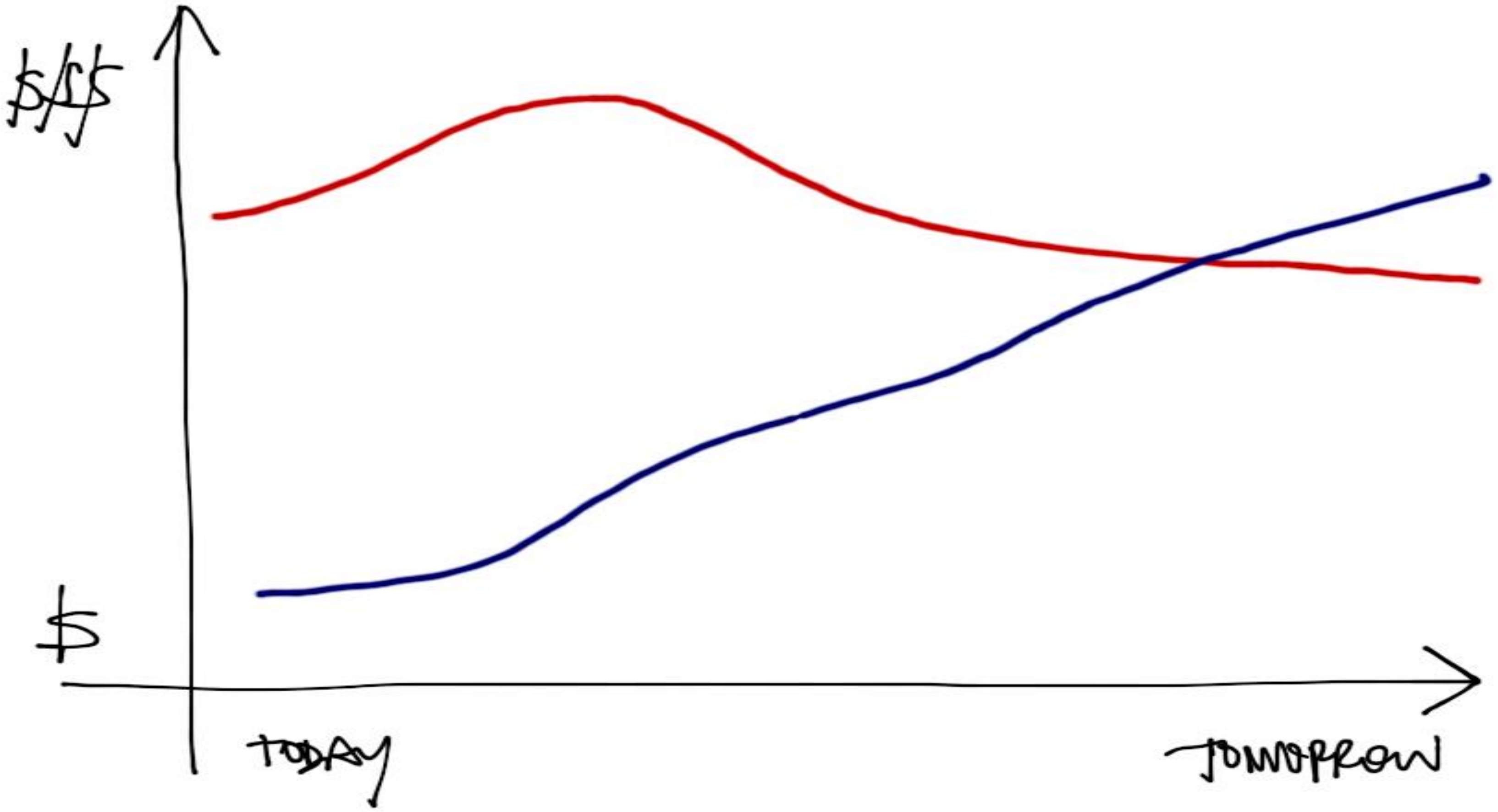
PROVIDE ACCESS TO ITS RICH HISTORY AND RECREATION OPPORTUNITIES

DEMONSTRATE EXEMPLARY STEWARDSHIP OF NATURAL RESOURCES

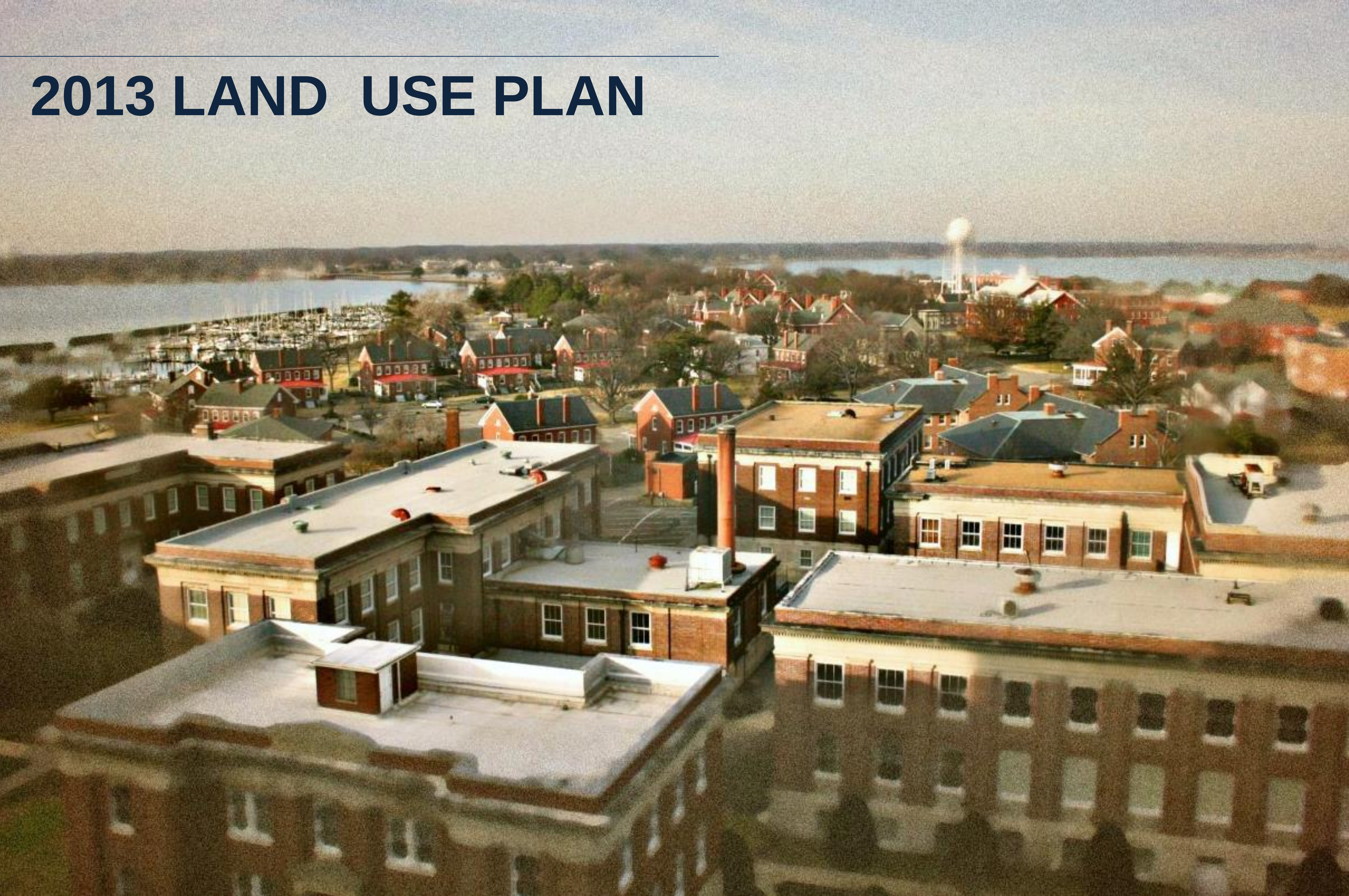
CREATE A COMMUNITY WHERE PEOPLE WANT TO LIVE, WORK AND VISIT

FINANCIAL CHALLENGE

The FMA must generate enough **revenues to cover its expenses**



2013 LAND USE PLAN



2013 APPROVED LAND USE MASTER PLAN

2013 APPROVED LAND USE MASTER PLAN

	Mixed Use – Residential	Mixed Use – Commercial*
ADAPTIVE REUSE	400 units	790,000 SF **
NEW CONSTRUCTION	720 units	160,000 SF
Total	**1,120 units**	**950,000 SF**

NOTES:
* Mixed Use – Commercial program includes employment, retail/dining, institutional, and hospitality focus land uses.
** Adaptive reuse square footage excludes interim use of buildings which are not in the long term plan (e.g. butler buildings).

LEGEND

- MIXED USE - RESIDENTIAL FOCUS
- MIXED USE - EMPLOYMENT FOCUS
- MIXED USE - RETAIL/DINING FOCUS
- MIXED USE - INSTITUTIONAL FOCUS
- MIXED USE - HOSPITALITY FOCUS
- COMMUNITY FACILITIES
- INFRASTRUCTURE BLDGs
- NPS BLDGs
- NPS LAND
- ACTIVE OPEN SPACE
- PUBLIC BEACH
- ACTIVE OPEN SPACE - WHERRY RESERVE
- NOT IN LONG TERM PLAN

LINK BETWEEN MASTER PLAN & FINANCES

2013 Master Plan

- Mix of Uses
  - Residential
  - Commercial
  - Community Facility
- Density
- Capital Improvements

Financial Model

- Revenues
  - Residential
  - Commercial
  - Community Facility
- Absorption
  - Sales
  - Leasing
- Capital Budget

PLAN ALTERNATIVES CONSIDERED IN 2012

A. REUSE & INFILL

	RES.	COMM./INST./MXD
REUSE	225 DU	1,000,000 SF
NEW	235 DU	400,000 SF
Total	**460 DU**	**1,400,000 SF**

B. WHERRY PARK

	RES.	COMM./INST./MXD
REUSE	225 DU	780,000 SF
NEW	220 DU	210,000 SF
Total	**445 DU**	**990,000 SF**

C. WATERFRONT COMMUNITY

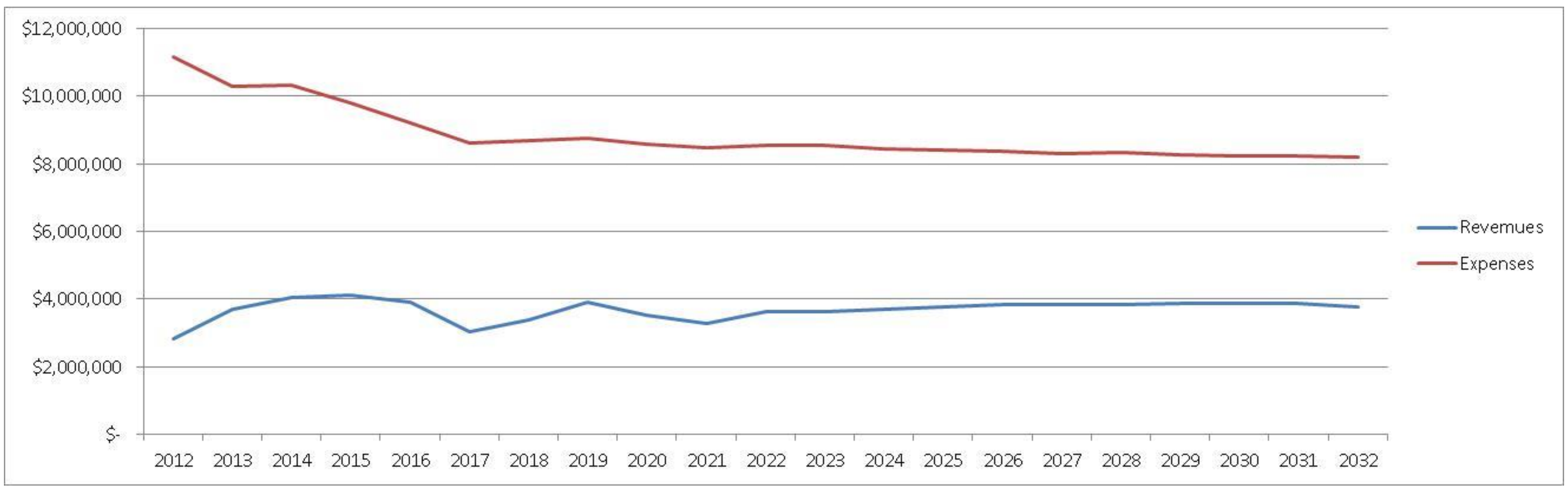
	RES.	COMM/INST/MXD
REUSE	225 DU	790,000 SF
NEW	575 DU	340,000 SF
Total	**800 DU**	**1,130,000 SF**

2012 OPTION A – REUSE AND INFILL

	RES.	COMM./INST./MXD
Total	**460 DU**	**1,400,000 SF**

FINANCIAL OUTCOME

Structural Deficit = $4.5 million



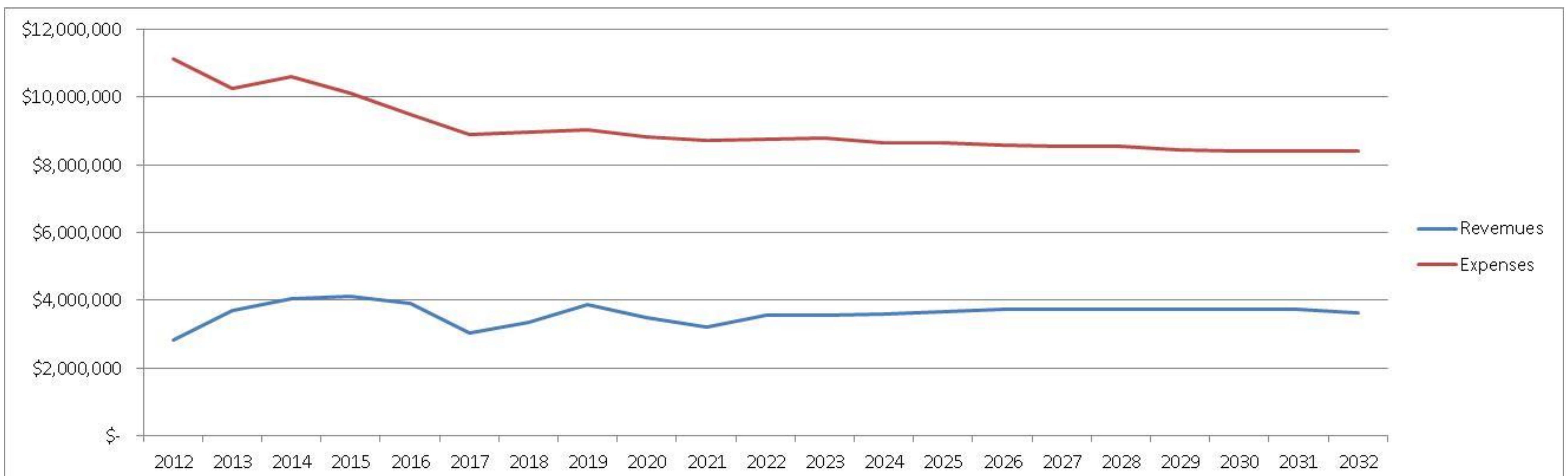
2012 OPTION B – WHERRY PARK

	RES.	COMM./INST./MXD
Total	**445 DU**	**990,000 SF**

FINANCIAL OUTCOME

Structural Deficit = $4.8 million in 2027

$5 to $8 million additional capital costs for demolition and restoration

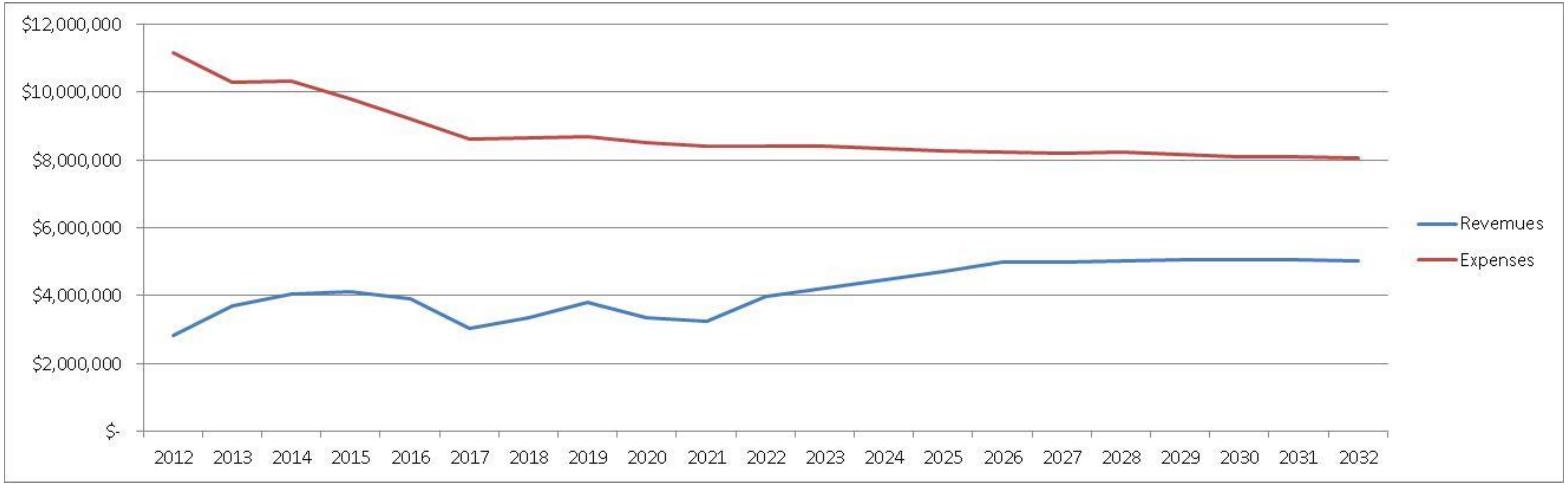


2012 OPTION C – WATERFRONT COMMUNITY

	RES.	COMM/INST/MXD
Total	**800 DU**	**1,130,000 SF**

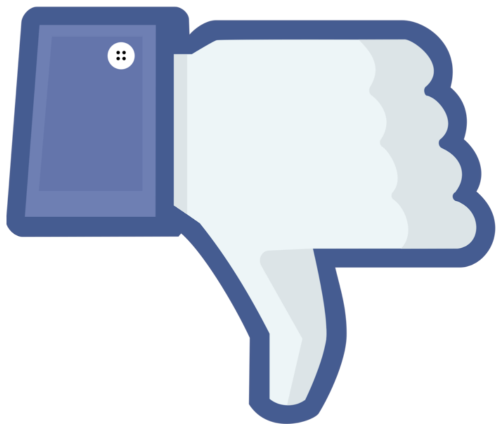
FINANCIAL PERFORMANCE

Structural Deficit = $3.3 million in 2027



2012 MASTER PLAN OUTCOME SUMMARY

None of the December 2012 Master Plan alternatives resulted in a **pathway to financial independence**.



Why these results?

- Too much commercial with slow absorption rates
- Replacement of revenue-generating butler buildings with uses that generate lower levels of revenues
- Lack of other sources of ongoing revenue

The 2013 Master Plan and financial model addressed these issues

2013 FORT MONROE FINANCIAL MODEL

2013 ECONOMIC ADVISORY TEAM

- In early 2013, the FMA Board and FMA Director convened a **team of stakeholders and experts**

- **Mission:**
  - **Review** the financial model
  - Review and propose **revenue-generating ideas**
  - Identify **cost reducing** measures
  - Focus on **"moving the needle"** e.g. $250,000 +/-

- **Process:**
  - Met 3 times in January and February 2013
  - Presentation to FMA Board in March and July 2013

- **Formulated an approach and "ideas to test"**

RECOMMENDED ACTIONS TO EXPLORE

- The Economic Advisory Team identified **10 actions** that could be taken to bridge the structural deficit:

1. Exit the utility business
2. Use tax increment financing
3. Reprogram Draft 2012 Master Plan to focus on residential
4. Establish a homeowner association (HOA) dues program
5. Revise PILOT payment program (nonprofit exclusion)
6. Establish parking fee program
7. Focus on adaptive reuse for residential uses
8. Share costs with NPS
9. Adopt a hybrid leasing and fee sales approach to property disposition
10. Establish a commercial service district charge program

EXITING UTILITY BUSINESS

- **Problem: fixed costs to operate systems are high**
  - Not enough existing and planned improvements to spread costs economically
- **Limited feasibility to exit utility system operation**
  - FMA staff met with utility providers over summer 2013
  - Utility providers **will not accept** systems not approved by them
  - Capital costs to prepare systems for transfer would likely **exceed $50 million**
  - Prior estimates were $30 to $36 million
- **The numbers favor retention of utility systems**
  - Actual critically needed capital improvements are estimated at **only $13 million**
  - FMA may be better off utilizing one-time revenues to **make critical improvements** and **invest the remaining funds** to generate revenue to pay for operations

2013 FINANCIAL MODEL ASSUMPTIONS

- **Based upon input from the 2013 Economic Advisory Team and FMA staff, BAE prepared a revised financial analysis that:**
  - Retains utility operations
  - Offers 110 existing homes outside the Inner Fort for sale
  - Finances home sales with FMA financing
  - Continues to lease Inner Fort homes under management contract
  - Leases and manages 5 office buildings in the Historic Village
  - Encourages conversion of historic commercial buildings to residential use
  - Retains, leases and manages 13 butler buildings in office use until more economically productive use materializes
  - Assumes no EDC payment to the Army
  - Manages Marina through a concessioner or contractor
  - Assumes FMA exemption from PILOT payments for buildings in public use
  - Seeks VA appropriations and/or property tax sharing if insufficient funds are generated for operations or capital projects

2013 ABSORPTION ASSUMPTIONS

	Mixed Use – Residential	Mixed Use – Commercial
ADAPTIVE REUSE	400 units	790,000 SF
NEW CONSTRUCTION	720 units	160,000 SF
Total	**1,120 units**	**950,000 SF**

Residential

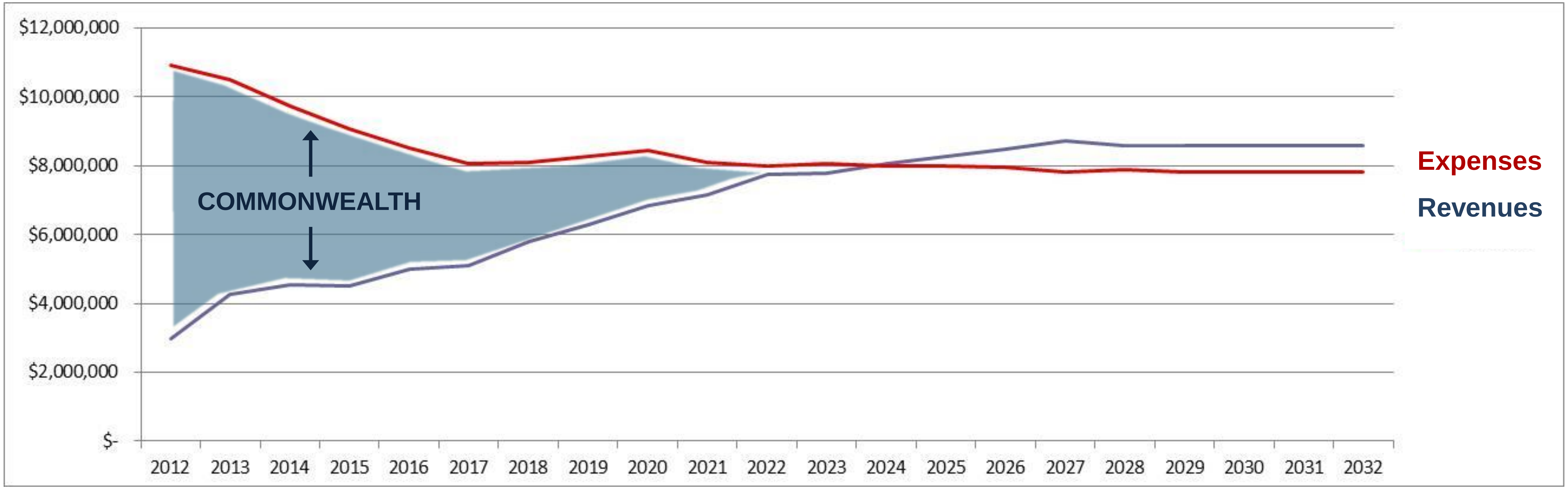
- 110 existing residences sold between 2015 & 2018
- 186 units from adaptive reuse of commercial between 2015 & 2020
- 540 new residential units between 2018 & 2027

Commercial

- 20,000 SF existing or new office space absorbed annually
- Marina office/retail mixed use development in years 2020 & 2021
- New lodging developed in 2022

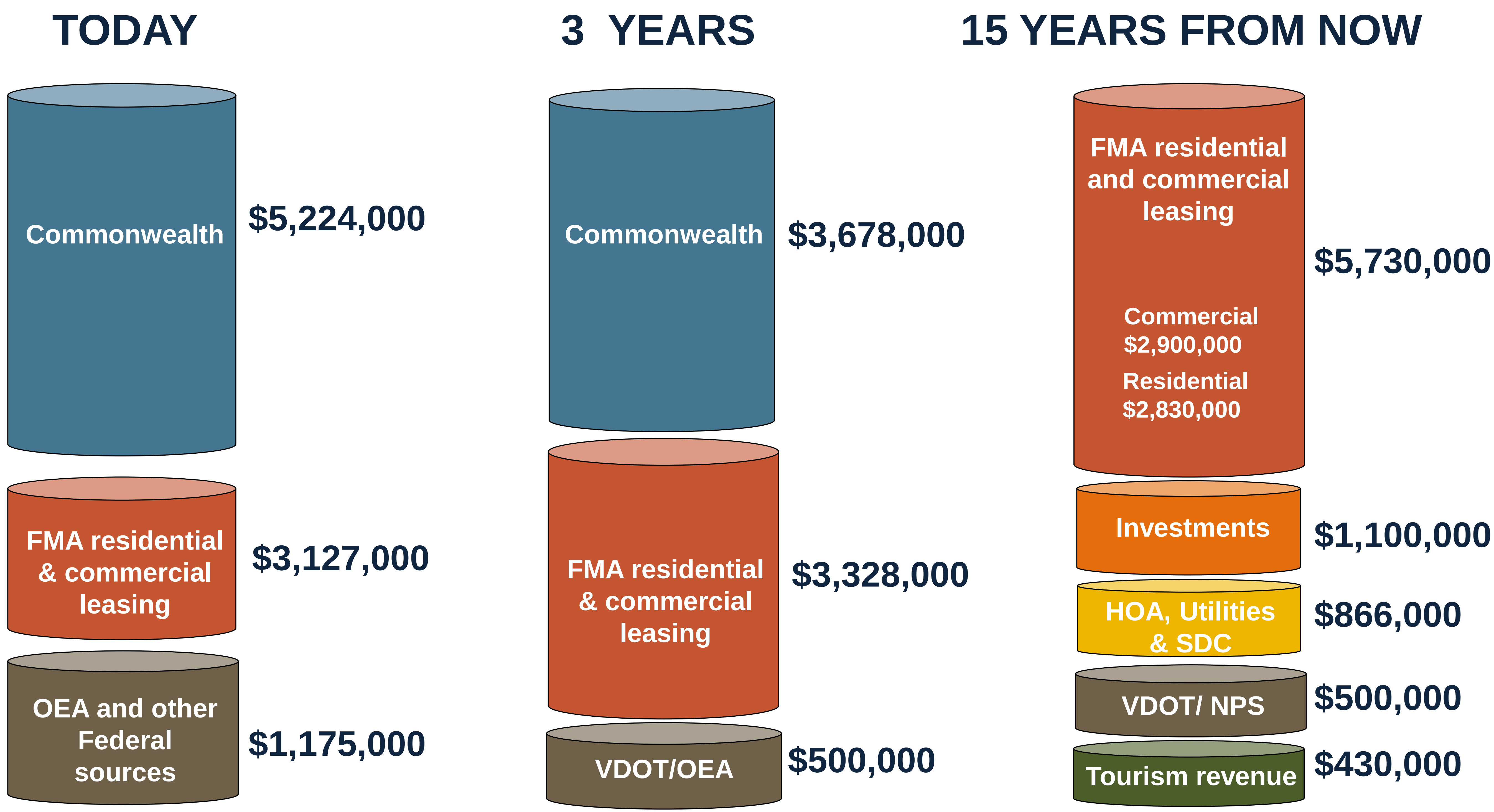
2013 FINANCIAL RESULTS

- BAE evaluated the recommended actions and approaches for the final 2013 Master Plan, including the FMA "bank" concept.
- The estimated 2027 deficit of $3.3 to 4.8 million changes to an operating surplus of $765,000 –**IF** all the actions are adopted.



REVENUE BREAKDOWN – 2013 PERSPECTIVE

NOTE: Excludes capital budget



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STABILIZED 2027 FMA PORTFOLIO

FMA Portfolio

Direct Leasing		Ground Leases	
Community Facilities	468,763	Office	48,178
Office	157,036	Retail	15,271
Retail	13,670	Lodging	113,000
Casemate	7,800	Subtotal Commercial	176,449
Lodging	9,634		
Subtotal Commercial	656,903	Residential Adaptive Use (units)	186
		New Residential	540
Residential (units)	86	Subtotal Units	726
		Existing Homes Sold	110

FMA Total

Total Commercial	**833,352**	Includes existing butler buildings (83,000 SF)
Total Residential Units	**922**	Excludes 132 units on butler building sites

2013 APPROACH TO BUILDING UP REVENUE

- **#1: Revenue from sold assets:**
  - Homeowner association dues
  - Utility system service charges
  - Service District Charge (commercial only)
  - Income earned from FMA financing home purchases

Sell properties to generate funds for capital improvements and reduce FMA operational requirements

- **#2: Other revenue**
  - Parking fees
  - Special event fees
  - Admissions charges

Levy reasonable and/or customary charges

- **#3: Lease revenue**
  - Residential
  - Commercial

Retain certain properties to generate lease revenue to pay for ongoing operations

- **#4: Government support**
  - VDOT for streets
  - NPS cost sharing
  - Commonwealth support

Identify appropriate level of long-term government support

HOW REVENUE APPROACH WORKS (2013)

	2027	
FMA "core" operations costs:	($4,950,000)	
	$1,930,000	**#1: Ongoing revenue from sold assets:**
Remaining deficit:	($3,020,000)	
	$ 960,000	**#2: Other revenue**
Remaining deficit:	($2,060,000)	
	$2,320,000	**#3: Lease revenue**
Operating surplus:	$ 265,000	
	$ 500,000	**#4: Government support (VDOT/NPS)**
Operating surplus:	**$ 765,000**	

EVALUATING LEASE VERSUS SALES OPTIONS

KEY GROUND LEASE/ FEE SALE CONSIDERATIONS

Revenue	• Sale: One time • Lease: Recurring income; periodic one-time capital event revenue
Control	• Sale: Covenants/easements • Lease: contract terms
Enforcement	• Sale: sue for compliance • Lease: monetary and non-monetary default provisions; sue for performance
Upside	• Sale: Limited ability to participate; transfer payment • Lease: percentage rent; capital events; re-appraisal
Administration	• Sale: Enforcement of covenants and interface with HOA • Lease: Lease administration and active tenant management

APPROACH TO ASSET DISPOSITION

- **Revenue for the same asset can vary by disposition strategy**
- **Take one Marina View duplex unit for example:**

Sales and reinvestment

$150,000	Sales price
$15,000	Prep costs
$135,000	Net proceeds
3%	Reinvestment rate
$4,050	Annual income

Sales and FMA financing

$150,000	Sales Price
$30,000	20% Downpayment
$120,000	Loan Amount
0.04	Interest rate
30	Term
$6,940	P&I payment
($139)	Less: servicing @2%
$6,801	Net payments to FMA
$30,000	One time revenue
($15,000)	Less: Prep costs
($4,800)	Less: Underwriting @4%
$10,200	Net one time revenue

Retain as Rental

$150,000	Value
$16,200	Annual rent
	Annual expenses
$7,290	@45% of rent
$8,910	Net annual income

APPROACH TO SALES VS GROUND LEASING

- **Rates of return to FMA vary by asset disposition strategy**
- **Take 8-acre Wherry lodging site for example:**

Sale

$3,277,000	Land sales price
3%	Reinvestment rate
$98,310	Annual income

Ground Lease

$3,277,000	Land value
7%	Rate of return to set annual ground rent
$229,390	Annual rent payment

KEY FINDINGS – FINANCIAL MODEL

1. FINANCIAL PLANNING HAS TO START WITH A CLEAR SET OF WELL DEFINED LONG TERM OPERATIONAL REQUIREMENTS

2. LAND USE MASTER PLAN MUST REFLECT CURRENT AND ANTICIPATED MARKET CONDITIONS

3. PROPERTIES RETAINED FOR DIRECT LEASING DETERMINED BY NEED FOR ONGOING REVENUE

4. TO ACHIEVE “BREAK EVEN” ACTION IS REQUIRED TO GENERATE ADDITIONAL ONGOING REVENUES

KEY FINDINGS – LEASE VS. SALE

1. THERE IS NO ONE “RIGHT STRATEGY” –FMA WILL NEED TO PURUSE A MIX OF LEASING AND SALES ACTIONS

2. MIX OF LEASED PROPERTIES AND FEE SALES YIELDS A STREAM OF ONE-TIME AND ONGOING REVENUES

3. ONE-TIME AND ONGOING REVENUES NEED TO MATCHED TO FMA’S LONG-TERM CORE OPERATIONAL REQUIREMENTS AND CAPITAL IMPROVEMENT PLAN

4. FMA MUST BE RESPONSIVE TO MARKET OPPORTUNITIES

5. OPPORTUNITIES MUST BE BENCHMARKED

QUESTIONS AND COMMENTS