Yerba Buena Gardens

Recommendation for Future Ownership/Management Structure

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Executive Summary

Executive Summary

This report was commissioned by the Office of Community Investment and Infrastructure ("OCII"), the Successor Agency to the former San Francisco Redevelopment Agency, in consultation with the City and County of San Francisco (the "City"), to inform the decision-making process regarding the future ownership and management of Yerba Buena Gardens (the "Gardens"). A map of the Gardens is found in Appendix A.

In early 2012, redevelopment agencies across California were dissolved by the California State Legislature (Assembly Bills 26 of 2011 and 1484 of 2012) and the State Supreme Court's decision in California Redevelopment Association et al. v. Ana Matosantos (2011) (together, Redevelopment Dissolution Law). In accordance with Redevelopment Dissolution Law, OCII was named as the Successor Agency to the former San Francisco Redevelopment Agency. Under Redevelopment Dissolution Law, OCII cannot own and manage the Gardens in perpetuity. Rather, OCII is required by Redevelopment Dissolution Law to transfer the Gardens to new ownership in accordance with a Long-Range Property Management Plan ("PMP") approved by the State of California's Department of Finance ("DOF"). OCII's PMP was submitted to DOF in November 2013 but has not yet been approved by DOF. In it, OCII proposes a transfer of the Gardens to the City for a governmental purpose (i.e., open space, cultural facilities, recreational facilities, etc.).

Public Financial Management, Inc. ("PFM") was engaged by OCII, in consultation with the City, to assist in researching and analyzing possible ownership and management structures for the Gardens, and then to make a recommendation. PFM worked closely with OCII staff, City staff, and members of the community in developing these recommendations.

As part of its research, PFM investigated urban mixed-use public spaces both in San Francisco and across the country, and researched how these comparable projects were owned and managed. This research produced three primary ownership/management models, each of which is examined in more detail later in this report and in Appendix B:

- **Model 1: City Ownership and Non-Profit Management Models**
  Under this model, the city maintains full ownership of the assets but contracts the day-to-day management and operations to a non-profit organization (501c3). Depending on the type of agreement between the city and the non-profit, the city could maintain some level of control over the management and operations of the assets.

- **Model 2: Other Public Entity Ownership and Management Models**
  Under this model, the city transfers full ownership and management responsibilities of the assets to a different public entity (such as an independent authority).

- **Model 3: City Ownership and City Management Models**
  Under this model, the city maintains both ownership and management responsibilities over the assets. The city could choose to manage the assets in-house or contract with a private entity. Nationally, most public parks would fall into this category.

Our research indicated clearly that Models 1 and 2 have developed historically as alternatives to Model 3, both in San Francisco and elsewhere. This occurred as a result of the perception that Model 3 was not the best approach in terms of quality of service or transparency of management. Models 1 and 2 have been adapted extensively to fit the contexts in which they were needed. Model 3 remains by far the most common form of ownership and management.

Access to capital and the long-term financial sustainability of the Gardens emerged as important objectives for stakeholders given the Gardens' ongoing capital needs. As such, PFM also analyzed various alternative capital financing tools, and considered various parameters that might impact the ability to raise capital funds for the Gardens, such as the Gardens' debt capacity and the timing and difficulty of accessing capital. More detail about these capital financing tools can be found in Appendix C.

RECOMMENDATION

Any one of the three models listed above could be successful. Also, it is possible that any one of these models, or variations of them, could fail despite its strengths. Therefore, in making its recommendation, PFM weighed the relative risks of each model against the model's inherent strengths and weaknesses:

- **Model 1** has significant strengths: an ability to raise and use charitable donations, the ability to build on the existing constituencies of the Gardens, and a focus on maintaining and growing the integrity of the Gardens. Also, it provides a degree of separation from liability for the City. Yet Model 1 has some real weaknesses, most significantly, Model 1 has the greatest chance of financial instability and organizational failure. This risk is to some extent the flip side of its independence from the City. Further, while it is difficult to forecast the relationship between the non-profit management organization and the Gardens'

current non-profit tenants, it is possible that the management organization could be viewed as a competitor for donations. Under such a circumstance, the relative advantage of accepting charitable contributions would be muted. In sum, the inherent financial risk posed by the non-profit management structure in securing future capital needs and its subsequent organizational instability, makes Model 1 somewhat less desirable than Model 2 in PFM's view.

- **Model 2,** as a quasi-governmental organization, would enhance the unique integrity of the Gardens to the greatest degree, balancing the diverse needs of the Gardens' constituency, community residents and tenants. Since Model 2 could be constituted as a non-profit or work closely with a non-profit affiliate organization, it could also receive charitable donations. The success of charitable donations will largely depend on the public's perception of making donations to a quasi-governmental entity. As a result, this may not be a significant revenue stream. Model 2 mitigates the City's legal and financial liability to a degree. Model 2 would be less susceptible to organizational instability and financial failure than Model 1. Governance and implementation are still significant challenges to Model 2, although not necessarily more than Model 1. Additionally, this is the model utilized for Pike Place Market in Seattle, which is analogous to the Gardens in many respects.

- **Model 3** offers some real advantages, including its creation within the existing management and governance structure of the City and its financial safety net through its close ties to the City. Yet, that financial safety net means greater legal and financial liability to the City. Also, there is greater uncertainty about whether this model could be effective in maintaining the integrity and synergy of the Gardens.

Regardless of the model ultimately selected, PFM recommends the City develop a long-term financial plan to assess the financial needs of the organization and to help ensure future access to the capital markets.

Based on these considerations, we believe that **Model 2** offers the best combination of risk mitigation and organizational stability in order to be successful. Model 2 provides a unique ability to maintain and grow the strengths of the Gardens into the future. A quasi-governmental organization would be best suited to balance the needs of the diverse stakeholders at the Gardens, ensuring that not one single entity or group is afforded too much authority. While this is not a model that is widely used elsewhere in the United States, it appears to be the best fit to the unusual context of Yerba Buena Gardens and San Francisco.

More discussion about PFM's recommendation can be found in the "Summary Conclusions" subsection of the "Discussion of Ownership/Management Models" section found later in this report.

Background and Context

Background and Context

In July 2013, OCII engaged PFM to assist in developing a strategy for the disposition of the Gardens in accordance with Redevelopment Dissolution Law. PFM recognizes that despite the importance of the Gardens to the fabric of the urban core of San Francisco, its continued success is not assured without a reasonable plan of action that enables its continuation and transition into the future. This report reflects the culminating efforts of PFM staff, OCII staff, City staff, community stakeholders, and other interested parties to develop a long-term strategy for the disposition of the Gardens assets.

The Gardens real property assets are a collection of urban mixed-use spaces that include private uses (i.e., commercial and retail properties) and public uses (i.e., cultural facilities, performance venues, recreational venues, and vast amounts of public open space that includes garden areas, plazas, children's play areas, artwork, a historic carousel, and fountains). The assets function as a self-financing set of properties, where the private uses are required to financially support the maintenance of the public uses and also the operations of the cultural facilities. This mix of commercial and retail properties, combined with visitor attractions and cultural facilities, make the Gardens a unique and important collection of assets for visitors, residents of the Yerba Buena neighborhood, and the entire City. A map of the Gardens is included in Appendix A for additional reference.

For almost 30 years, the former San Francisco Redevelopment Agency (and now OCII) has owned and managed the Gardens as an intact portfolio of self-sustaining properties. The Gardens was built using land sale proceeds and tax increment financing, a redevelopment tool that was available at the time. Under previous state law, redevelopment agencies were able to borrow against expected future increases in property taxes that resulted from their investment in the blighted area. Over time, as more investments were made in the redevelopment area, property values would be expected to increase, as would the property tax revenues they generated. A portion of the increase in the property tax revenues (the "increment") was directed away from the taxing agency (in this case the City and County of San Francisco) and to the redevelopment agency to meet its debt obligations.

The creation of the Gardens was the result of a decades-long struggle. The result was a community asset that represents not only an enormous financial public investment, but a profoundly important community resource. In retrospect, it can also be seen as one of the most successful public-private partnerships in the history of the City – the public investment in the Gardens preceded billions of dollars in private investment in the surrounding area. As such, its maintenance and preservation are of utmost important to the City and to the community.

Background and Context

Today, OCII owns the Gardens and manages it through third party contractors who handle the operations, capital expenditures, programming of the open spaces, and operation of the cultural facilities. As tax increment funding is no longer available, OCII must rely on its ground lease payments and other fees to fund the maintenance, management, and security of the Gardens' structures and landscaping, and to fund the cultural operators. Without tax increment, the current funding streams available to the Gardens, though stable and reliable, will not be sufficient to keep up with anticipated future capital needs.

Redevelopment Dissolution Law will not allow OCII to own the Gardens indefinitely. As mentioned above, Redevelopment Dissolution Law requires OCII to develop a PMP that, upon approval by the DOF, sets forth how the assets will be transferred. OCII's PMP, which was submitted to DOF on November 25, 2013, proposes to transfer the Gardens to the City for a governmental purpose (i.e., parks, recreational facilities, children's facilities, cultural facilities) since the properties were acquired and constructed with public funds and used for a public purpose. The City's Office of the City Administrator has agreed to accept the Gardens for a governmental purpose and to manage them as a single, unified set of properties using the restricted revenue source generated from the Gardens properties. Given the complexity of the long-term lease agreements, the multitude of tasks involved in closing a transaction of this magnitude, and the sheer number of stakeholders, OCII and the City expect that the full transfer of the Gardens will take several years to complete.

It is within these unique set of parameters that PFM analyzed the ownership and management structures of other comparable urban mixed-use public spaces, explored alternative capital financing mechanisms, and ultimately arrived at the final recommendation included within this report.

Discussion of Ownership/Management Models

Discussion of Ownership/Management Models

INTRODUCTION

Given the diversity of the Gardens' assets, PFM did not find a similar urban mixed-use public space in San Francisco that serves as a perfect analogy or comparable. As a result, PFM broadened its research efforts to include ownership/management structures of comparable urban mixed-use public spaces elsewhere in the nation.

The comparable projects researched generally fell into three broadly defined categories as referenced below. PFM used these models to facilitate an organized dialogue with OCII, the City, and community members. However, not all of the mixed-use urban spaces researched neatly fit into one of these categories.

- **Model 1: City Ownership and Non-Profit Management Models.** Under this model, the city maintains full ownership of the assets but contracts the day-to-day management and operations to a non-profit organization (501c3). Depending on the type of agreement between the city and the non-profit, the city could maintain some level of control over the management and operations of the assets.

- **Model 2: Other Public Entity Ownership and Management Models.** Under this model, the city transfers full ownership and management responsibilities of the assets to a different public entity (such as an independent authority).

- **Model 3: City Ownership and City Management Models.** Under this model, the city maintains both ownership and management responsibilities over the assets. The city could choose to manage the assets in-house or contract with a private entity. Nationally, most public parks would fall into this category.

For each of the comparables PFM prepared a fact sheet outlining the ownership and management structure, the composition of the Board of Directors, financial considerations (including whether or not the entity has issued debt), the reason for the structure enacted (if known), and whether or not the entity can accept charitable contributions. The fact sheets are included in Appendix B.

Each comparable was also analyzed in the context of its ability to meet key criteria. The core of these evaluation criteria focused on the preservation of the assets, the maintenance of their integrity as a unified asset, and the development of the organizational and financial capacity to sustain the assets. At the same time, PFM considered how well the different governance/management models allowed for the

entity to re-invest in the assets over time through capital financing. The key criteria used to evaluate these models were as follows:

- **Criteria 1: Long-term financial sustainability.** How well does the model enhance the long-term financial sustainability of the Gardens? What does the ten-year financial plan look like, and will there be enough resources to cover projected operational and capital needs?

- **Criteria 2: Organizational stability.** How stable and enduring is the model's organizational structure? How susceptible is the organizational structure to organizational disruptions and failure?

- **Criteria 3: Maintaining the integrity of the Gardens.** The Gardens assets have functioned successfully as a unified set of assets for more than 30 years. Maintaining that integrity is critical to community stakeholders, many of whom have spoken on this subject at public meetings. How well does the model ensure the integrity of the Gardens assets?

- **Criteria 4: Public involvement in decision-making and transparency.** Community stakeholders have also expressed a desire for continued input into the decision-making process for the Gardens, including decisions about funding for operations and capital improvements. How well does the model ensure public input into the decision-making process? Which model provides the most transparency in the decision-making process?

- **Criteria 5: Minimize impact on City's financial and legal liabilities**. The Gardens will take significant financial resources to maintain its operations and satisfy its capital needs over the coming decades. How well does the model insulate the City from financial and legal liabilities?

- **Criteria 6: Access to capital**. With the loss of tax increment financing, the Gardens must have a reliable substitute mechanism to fund its capital improvements in the future. PFM researched various available alternative capital financing tools for the Gardens, and the result of this research is included in Appendix C. Which model provides the most opportunities to access funds for capital improvements? Which model offers the most reliable menu of sources of capital improvement funds?

- **Criteria 7: Ease of implementation**. Each model will be challenging to implement. Which model will be the most difficult and most expensive to

implement? Which model will be the easiest and least costly to implement? What are some of the biggest administrative and political obstacles to implementation?

The following pages summarize PFM's analysis of each of the three models listed above, with summary conclusions at the end of this section. The following discussion focuses on key comparable urban mixed-use public spaces (which are listed in Appendix B), their relevance and applicability to the Gardens, and how well the model meets the seven criteria discussed above.

Discussion of Ownership/Management Models

MODEL 1: CITY OWNERSHIP AND NON-PROFIT MANAGEMENT

Under this model, the city maintains full ownership of the assets but contracts the day-to-day management and operations to a non-profit organization (501c3). Depending on the type of agreement between the city and the non-profit, the City could maintain some level of control over the management and operations of the assets.

PFM looked at the following comparable mixed-use public spaces for Model 1, the details of which can be found in the fact sheets in Appendix B:

- Bryant Park in New York, New York;
- Grand Park in Los Angeles, California;
- Central Park in New York, New York;
- Campus Martius Park in Detroit, Michigan;
- The Produce Market in San Francisco, California;
- The Golden Gate Concourse in San Francisco, California; and
- Lincoln Center in New York, New York.

In general, the non-profit management models examined by PFM emerged as a result of the cities' deteriorating financial position and inability to fund needed park operations, maintenance, and security. This is true for Bryant Park, Central Park, and Campus Martius Park. Recognizing the importance of the public spaces to their community, residents and business leaders pursued new approaches to improve the conditions of the parks with non-City supported revenues.

In order to maximize philanthropic contributions and limit the City's direct investment in these assets, non-profit organizations were formed, often with good results. For example, Bryant Park today operates without assistance from New York City while the Central Park Conservancy, also in New York City, has amassed an endowment of nearly $134.4 million according to their FY12 financial statement. In Detroit, the Campus Martius Park was constructed through $20 million in private donations.

While financial independence is certainly a strength of the non-profit model, its success is far from guaranteed. For example, the Music Concourse Community Partnership, a non-profit organization created in San Francisco to maximize philanthropic contributions toward the construction of the Golden Gate Park Concourse parking garage and other landscape improvements, was unable to meet its original fundraising goals.

Other non-profit models researched by PFM, such as the San Francisco Produce Market, were not designed with charitable contributions as a primary objective. In the

case of the Produce Market, the non-profit San Francisco Market Corporation (SFMC) was formed to help limit the City against legal and financial liabilities. Today, the SFMC operates the Produce Market at no cost to the City's General Fund.

Among the Model 1 mixed-use public spaces reviewed, the level of control maintained by the cities varied. In some of the examples researched, the cities were found to have representation on the non-profit agency's board of directors, through which some level of policy control was maintained (i.e., NYC's Central Park). In other models, such as the San Francisco Produce Market, the City does not have representation on the non-profit's board of directors, but rather exerts control over management and policy decisions through its operating agreement or lease.

The Model 1 mixed-use public spaces researched, in general, do not have as diverse tenants and assets as the Yerba Buena Gardens – a potential explanation for why the non-profit models were successful in many of the parks researched and a potential risk for this model as it applies to the Gardens. While we believe that the operation of the Gardens could still be effective under this model, balancing the needs of a diverse set of tenants (hotels, merchants, cultural organizations, entertainment and recreational facilities) and community members might pose a challenge for a newly formed non-profit organization.

The following briefly summarizes how well Model 1 meets the seven evaluation criteria discussed above:

- **Long-term financial sustainability.** The non-profit model has the advantage of being able to solicit tax-deductible donations to support its ongoing needs. While this is a clear advantage, further study would be needed to determine the potential scope of charitable donations. It is important to consider that this new non-profit would enter into a context of intense competition for charitable donations, even within the Yerba Buena Gardens neighborhood. For example, it would be important to understand whether a new non-profit would be competing with the Yerba Buena Center for the Arts for donations. Where would the new non-profit look for donations? Individual giving can be significant over time, but foundation support may be needed as well.

  While large and established non-profits can become quite financially strong, many survive with considerable difficulty, and some do not survive at all. In the great recession, there was a substantial reduction in the number of non-profits nationally. Some did not have the financial resilience to wait out such challenging economic times.

In this case, a non-profit would be created with the revenues and costs already associated with the facilities. Given that these costs and revenues have been balanced in recent years, there does not appear to be an immediate concern of operating shortfalls. The major challenge of a new non-profit would be managing the existing revenues and costs to a point where additional financial capacity is available for capital investment. Many non-profits raise donations successfully for capital campaigns for new facilities. Reinvestment in existing facilities is typically much more challenging, however. For example, basic capital improvements do not typically provide naming opportunities for donors. This issue is addressed in more detail in the discussion of "access to capital."

- **Organizational stability.** Organizational stability can be a problem for some non-profits. Clearly they are more vulnerable to economic and financial impacts than a governmental organization. Additionally, non-profit boards can change rapidly, particularly at the leadership level. While these changes can be therapeutic in some situations, they can pose risks in other contexts. The last recession witnessed the financial failure of many non-profits, thus demonstrating their inherent vulnerability to challenging economic periods.

  It should be noted that that the concerns regarding the stability of non-profits are directly tied to their governance structures. The wide range of governance structures available to non-profits is one of their strengths. But this wide variation makes it difficult to generalize in very broad terms about how governance affects their stability. For example, a self-perpetuating board – a board that can renew itself – might be seen as unable to adapt adequately to changing circumstances, thereby increasing the chance of the organization's demise. Recognizing this risk, there are other board governance models that could be utilized so that they are not self-perpetuating.

- **Maintaining the integrity of the Gardens.** Model 1 has the benefit of being driven by a self-defined mission. To the extent that the stakeholders are well represented in the governance of the facilities, then one would expect a non-profit to effectively maintain and grow the integrity of the Gardens.

- **Public involvement in decision-making process and transparency.** In order to ensure transparency, accountability and involvement of the public under Model 1, the City's operating agreement with the non-profit under this model would need to mandate transparency, likely by requiring periodic financial and operational audits, among other requirements.

- **Minimize impact on the City's financial and legal liabilities.** As an independent non-profit, the City's financial and legal liabilities would be mitigated.

- **Access to capital.** At a high-level, Model 1 would be challenged by the non-profit entity's lack of an established credit history as there does not appear to be a non-profit in place that would be able to seamlessly take over day-to-day management of the Gardens. In PFM's estimation, it would take several years for the non-profit entity to build enough history before being able to enter the capital markets. At the same time, 501c3 organizations are able to issue bonds through a conduit, though again the cost of issuing debt under these circumstances can vary widely depending on the financial strength of the issuer. See Appendix C for more details.

- **Ease of implementation.** Creating a new non-profit, clearly comes with significant implementation challenges. Strong non-profits are often created with a clear and well-defined mission and constituency. While it is possible to envision this evolving over time, there may be a considerable start-up effort needed to launch a new non-profit. There will be overhead costs associated with the creation of a new organization that will be significant. As noted before, governance itself will pose a major challenge, both in its structure, and in its operation. All of these challenges could be overcome, but it is important to be realistic about the time and resources that will be needed to grapple with them.

MODEL 2: OTHER PUBLIC ENTITY OWNERSHIP AND MANAGEMENT

Under this model, the city transfers full ownership and management responsibilities of the assets to a different public entity (such as an independent authority).

PFM looked at the following comparable mixed-use public spaces for Model 2, the details of which can be found in the fact sheets in Appendix B:

- Pike Place Market in Seattle, Washington; and
- The Presidio of San Francisco, California.

Though we did not conduct an exhaustive survey of all urban parks throughout the country, PFM's research did not find a large number of examples of urban mixed-use public spaces operating under Model 2.

At the same time, one of the comparables that we did survey, Pike Place Market Preservation and Development Authority (Pike Place Market), was one of the most relevant comparables to the Yerba Buena Gardens – in terms of its assets, tenants, and other stakeholders. In addition, Pike Place Market, like the Gardens, receives most of its revenues through lease agreements (commercial and residential rents).

Pike Place Market is a public-benefit organization that operates under a charter agreement with the City of Seattle as a "perpetual authority."[1] This designation has helped to enhance the market's long-term stability – it has existed as an authority since 1973. The governance of Pike Place Market consists of the landlord (the Pike Place Market), Market Historic Commission (preservation), Market Foundation (social services), Market Constituency (citizen engagement) and a number of other groups all performing different functions. The governance structure was put in place to ensure the ongoing preservation of the Market while not affording too much authority to any one entity in particular.

The Gardens could benefit from a similar organizational structure that legislatively requires the involvement of various stakeholders, helping to improve and maintain the integrity of the Gardens, while ensuring a voice for all of the interested parties. Within the context of the Gardens, Pike Place Market is highly relevant in PFM's viewpoint.

The following briefly summarizes how well Model 2 meets the seven evaluation criteria discussed above:

[1] Charter of Pike Place Market Preservation and Development Authority, As Amended August 23, 2003.

- **Long-term financial sustainability.** Model 2 also starts with the existing revenues and costs. Since this entity could also be created as a non-profit, it could access charitable donations. The same concerns about a revenues stream from charitable donations would exist for Model 2 as would exist for Model 1. An additional concern that would exist, however, is that, even while constituted as a non-profit, its legislative sanction might cause potential donors to view it more as a governmental entity, and therefore less deserving of donations. Some donors categorically do not give to government organizations. Others do so, but only sporadically.

  Model 2 is not expected to have any direct access to broader general government revenues such as property taxes unlike Model 3. It would have to approach the management of its revenues and costs within the same framework and constraints as with Model 1. The greater transparency required for Model 2, as a quasi-public entity as opposed to Model 1, might have the effect of forcing more discipline on management of costs and revenues. This argument would also apply to Model 3.

- **Organizational stability.** Model 2 has the benefit of a legislative sanction. The formation charter should provide it with a clear mission and governance structure. The founding legislation ties the governance structure to the body (in this case, the Board of Supervisors) that passes the legislation. To the extent that the organization faces threats to survival, either financial, or otherwise, it has the ability to seek resolution through appeal to its parent legislative body (this actually provides a forum for resolution of critical issues). Of course, it is possible for the parent body to change or repeal the founding legislation. Even with the legislative sanction, the other public entity could be allowed to go bankrupt.

- **Maintaining the integrity of the Gardens.** With its legislatively-defined focus on the Gardens, Model 2 could also be very effective in maintaining and strengthening the synergies of the Gardens.

- **Public involvement in decision-making process and transparency.** As a public entity, Model 2 would have a high degree of transparency, but it would have to be clearly stated in the entity's articles of incorporation or bylaws as adopted during the legislative formation process. The public entity's board of directors (or equivalent oversight board) could be structured to include

representation from the Yerba Buena community stakeholders, among others with a vested interest in the long-term success of the Gardens.

- **Minimize impact on the City's financial and legal liabilities.** Model 2 would insulate the City from financial and legal recourse though somewhat less than that anticipated in Model 1.

- **Access to capital.** Model 2 would have access to the capital markets and an ability to issue debt. Depending on the exact structure of the entity, it could potentially have access to the City's capital programs or issue debt as a stand-alone independent entity. See Appendix C for more details.

- **Ease of implementation.** Implementation issues for Model 2 are similar to those for Model 1. A new organization will be challenging to create and manage. Overhead costs, such as personnel, information technology, and finance will create an administrative and financial burden. Governance is also a challenge, although this will need to be resolved in the legislation creating the organization.

Historical Evolution: Our research has shown that Models 1 and 2 both developed in response to perceived failures of Model 3. Models 1 and 2 can be seen as variants on the same theme, yet Model 2 appears to provide a closer fit to the context of the Gardens.

MODEL 3: CITY OWNERSHIP AND CITY MANAGEMENT

Under this model, the city maintains both ownership and management responsibilities over the assets. The city could choose to manage the assets in-house or contract with a private entity.

PFM looked at the following comparable mixed-use urban spaces for Model 3, the details of which can be found in the fact sheets in Appendix B:

- Treasure Island in San Francisco, California; and[2]
- Millennium Park in Chicago, Illinois.

Nationally, most traditional public parks fall into this category. Yerba Buena Gardens, however, is not an "ordinary" public park. Rather, it is a diverse collection of assets in a highly urbanized setting that has a significant and important value to the Yerba Buena neighborhood. Moreover, the original concept of the Gardens evolved in response to perceived concerns regarding traditional park management.

One weakness of Model 3 is that public parks must essentially compete for monies with other city agencies and departments that deliver equally important municipal services and with their own capital needs. During times of financial hardship, the City must prioritize its expenditures, balancing immediate and competing needs.

The following briefly summarizes how well Model 3 meets the seven evaluation criteria discussed above:

- **Long-term financial sustainability.** Model 3 would start with the same basic costs and revenues as the other models. As previously noted, there is some concern about its ability to manage costs as effectively as the other two models.

  Because of Model 3's closeness to the mainstream bureaucracy and government structure in San Francisco, there is an argument that it could be more financially resilient over time; that is, it may be more difficult to imagine a scenario in which a Model 3 entity is allowed to fail financially. So, although it may have less control over its costs and revenues, it still has a "safety net" because it is the City. While it has a safety net, the ongoing challenge of providing adequate funding for park operations in San Francisco also creates a perceived "ceiling" of

[2] Given its evolving status, Treasure Island does not neatly fit into any of the Models explored, operating more as a hybrid between Models 2 and 3. Treasure Island is currently owned by the Navy, but is committed to the City. Ownership will be fully transferred to the City upon the Navy's completion of environmental remediation work.

funding and service levels. It should be noted that there are examples of other non-City organizations that have been bailed out by the City; most notably, the Asian Art Museum, which recently avoided default on its debt with assistance from the City. Therefore, while this distinction appears to be valid, it may not be definitive.

- **Organizational stability.** Model 3 would appear to have the greatest organizational stability (i.e., the best ability to survive difficult finances or poor management). City departments very seldom disappear, although they are occasionally absorbed into larger departments. However, the time required to fix large scale organizational problems can significant and can hurt the Gardens future ability to adapt quickly and efficiently to changing circumstances.

- **Maintaining the integrity of the Gardens.** A significant concern regarding maintaining the integrity of the Gardens comes with Model 3. While it is clearly possible for a governmental organization to succeed in this respect, there is nevertheless more risk of a loss of focus, and of a fragmentation of the management of the Gardens into smaller pieces. This situation would risk the loss of the integrity of managing the district as a whole. It was a concern about this risk that was one of the driving rationales for creating the Gardens as it is today. The success of this effort since its inception offers some reason to avoid the risk of traditional governmental management. In recognition of this concern, it is possible that traditional government ownership and management could structure itself in a way that attempts to maintain a focus on maintaining Gardens synergy. However, this would require development and implementation of a structure that is different than the traditional governmental approach.

  The concern about the ability of a governmental model to manage the Gardens should not be seen as a broad concern about governmental management. Clearly, there are many highly successful governmental management efforts in San Francisco and elsewhere. It is only to point out that the particular and unique requirements of the management of the Gardens are somewhat outside of the traditional purview of municipal government.

- **Public involvement in decision-making process and transparency.** Model 3 would provide for the highest level of transparency among the three options explored as it is legally required of public agencies. In addition, the community, through their elected representatives and participation in public meetings and/or hearings, would have a voice in future decisions concerning the Gardens.

- **Minimize impact on the City's financial and legal liabilities.** Under Model 3, the City would bear the full financial and legal liability of the Gardens – placing the City's general fund at risk should an unforeseen financial or legal event occur. Even though, in theory, the City's degree of financial liability is lessened in Models 1 and 2, the importance of the Gardens to the City as a whole and to the Yerba Buena community, make it highly unlikely that the City would be in a position to completely ignore a large scale financial crisis. Given the City's vested economic interest in the Gardens, the benefit of Models 1 and 2 in terms of limiting the City's financial liability is somewhat muted.

- **Access to capital.** Under Model 3 the Gardens' would have access to the City's capital financing tools and its high credit rating, resulting in lower cost debt. At the same time, however, under Model 3 the Gardens would be required to compete with multiple and other potentially high priority capital projects within the City's capital planning process. See Appendix C for more details.

- **Ease of Implementation.** Model 3 may come with the lowest level of implementation challenges. It can receive (and will pay for) overhead costs from the City. It will exist within a larger governance and management structure that is well-understood. It is possible that Model 3 could be undertaken as a new mission for an existing department, which might ease some of this difficulty, although probably not the cost.

SUMMARY CONCLUSIONS

Based on PFM's analysis into each of the three models listed above, the key comparable projects listed in Appendix B, their relevance to the Gardens, and how well each model meets the seven evaluation criteria, PFM makes the following summary conclusions.

- **Long-term financial sustainability.** Model 1's advantage with respect to fund-raising should not be over-estimated. However, its lack of financial resilience during challenging economic times is a concern. Model 3's potentially higher cost structure is a concern, and its longer-term reliance on the City could be a positive or negative. The middle ground occupied by Model 2, with its relative independence from the City, should give it the ability to manage costs and revenues effectively without undue reliance on the City, but without the higher level of risk associated with non-profits.

- **Organizational stability.** Model 3 would have the most organizational stability and Model 1 would have the least organizational stability. Model 2 falls somewhere in between, but its legislative sanction places it closer to Model 3 in terms of its stability.

- **Maintaining the integrity of the Gardens.** Of the three models, Model 3 has the greatest challenges with respect to maintaining the integrity of the Gardens, while Models 1 and 2 are similar and would probably be more effective in this regard than Model 3. We do have concerns with Model 1's ability to balance the sometimes competing needs of the community, particularly as it relates to governance.

- **Public involvement in decision-making process and transparency.** In PFM's view, all of the governance models researched can be structured to allow for community involvement and can operate in a transparent manner.

- **Minimize impact on the City's financial and legal liabilities**. Model 1 and Model 2 would minimize the City's financial and legal liabilities to the greatest extent, while Model 3 does not limit the City's liabilities at all. Given the importance of the Gardens to the City overall, even with total separation from the City, it is difficult to envision a scenario in which the City would be able to allow financial failure.

- **Access to capital**. In PFM's view, a combination of the alternative financing tools outlined in Appendix C may be employed under each of the different ownership/management models researched. As such, pinpointing the strengths of one model relative to another is inherently imprecise. PFM recommends that a long-term financial plan be developed to help assess the needs and options available for the particular model selected. The outcome of this effort will have the greatest impact on the new structure's access to the capital markets. Although each of the models have access to a number of financing alternatives, Model 2, standing between the purely public and non-profit worlds, has a slight edge in terms of its ability to access the widest range of financing alternatives. For example, Model 2 with its legislative sanction provides a stronger basis for an appeal to the City for financial assistance. This may be important in the early years before the new entity has had time to develop its own access to capital markets.

- **Ease of implementation**. Model 3 probably offers the clearest path to implementation. Models 1 and 2 both should expect to invest significant time and resources in implementation.

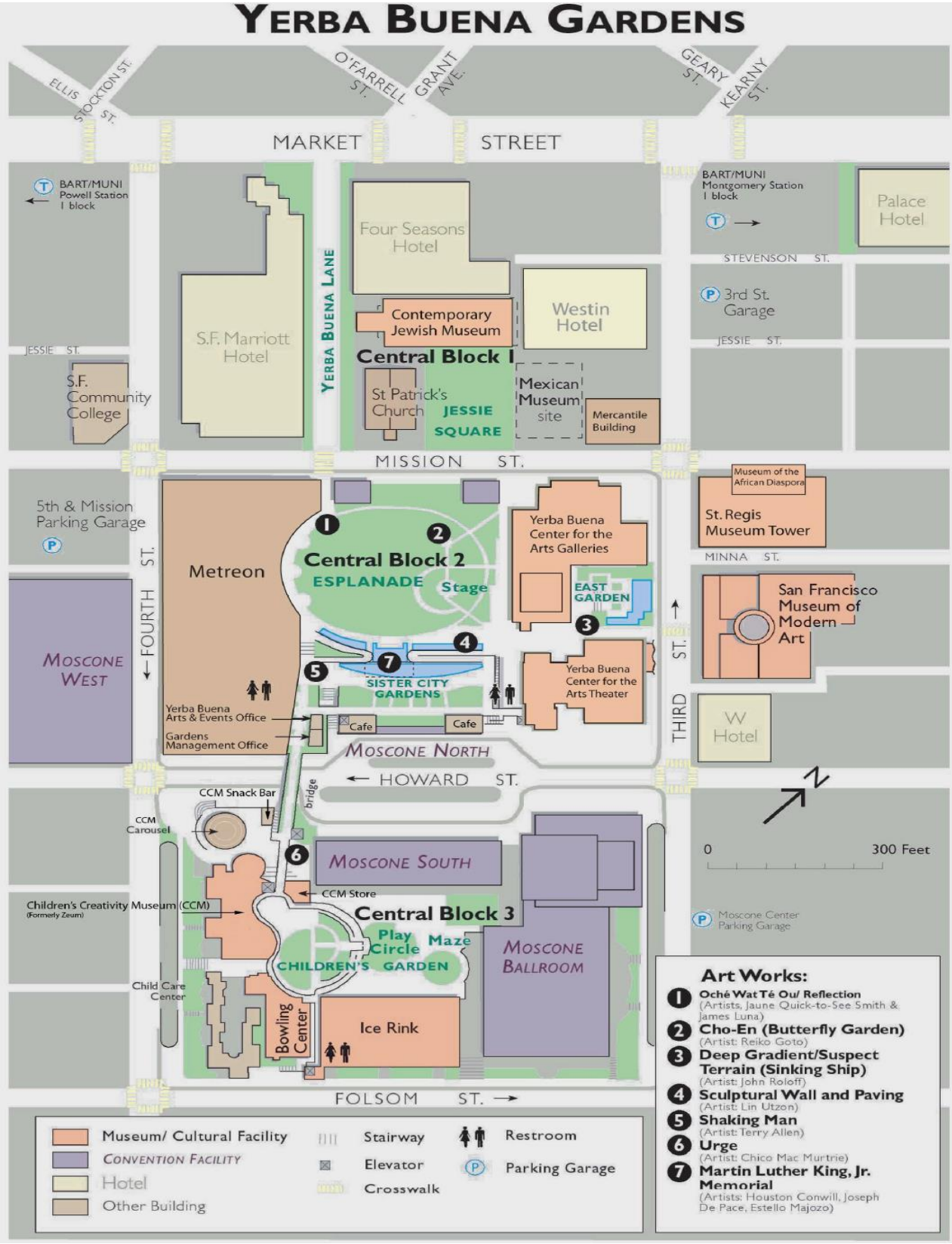
Different people will arrive at different conclusions when looking at the same data. The likelihood of arriving at diverging opinions, in our view, is enhanced when there is a degree of subjectivity to an analysis. We fully expect individuals to view the Gardens through an alternative lens, and in doing so, we would not label their findings as wrong. In making our recommendation, we try not to look at any one of the criterion in a vacuum. Rather, we focus on what we believe to be the cumulative strengths and weaknesses of each model in its simplest form.

Again, for these reasons, we believe that Model 2 offers the best combination of risk mitigation and organizational stability in order to be successful. Model 2 provides a unique ability to maintain and grow the strengths of the Gardens into the future, preserving the integrity of these important assets for future generations. A quasi-governmental organization would be best suited to balance the needs of the diverse stakeholders at the Gardens, enhancing its vision to create a "neighborhood" from a diverse mixture of uses, tenants and constituencies. The alternative is a more fragile approach in our view. While this is not a model that is widely used elsewhere in the United States, it appears to be the best fit to the unusual context of Yerba Buena Gardens and San Francisco.

Appendices

Appendix A

YERBA BUENA GARDENS MAP



Appendix B

SUMMARIES OF MODELS RESEARCHED

MODEL 1 -- BRYANT PARK – NEW YORK, NY

Ownership / Management	Bryant Park is owned by the City of New York and managed by the Bryant Park Corporation (BPC), a private non-profit 501(c)3 created to restore Bryant Park. Bryant Park is a 9-acre park in mid-town Manhattan with a large, open grassy area, carousel, and cafés. The park, which was built entirely over the underground structure that houses the New York Public Library's archives, is also heavily used for events. In 1985, BPC, the NYC Public Library, and the Parks and Recreation Department, entered into lease and management agreements under which responsibility for managing the park improvements was transferred to BPC. BPC assumed responsibility for routine operations, program services, capital improvements, and special events in the park, under the supervision of the City. BPC also has the right to develop commercial facilities under a 35-year lease of the properties within Bryant Park.
Board of Directors	The BPC's board of directors consists of 14 voting members. The Commissioner of Parks and Recreation sits on the board as an ex-officio member. Appointments to the board are made by the NYC Public Library and the active board members.
Financial Considerations	BPC also serves as a Business Improvement District (BID), through a related non-profit organization named the Bryant Park Management Corporation, which allows them to assess a fee on property owners and tenants within the district. Approximately 15% of BPC's revenues come from their status as a BID while the remainder come from corporate sponsorships, facility rental fees and earned income. All of these revenue sources combined are used for capital improvements and operations. The BPC does not accept public funds from the City which exempts them from the City's prevailing wage and benefit ordinance, resulting in lower personnel costs generally. <u>BPC has not issued bonds to fund capital improvements.</u> Rather, they have secured private bank loans, tied to specific revenue streams, namely the assessment of fees on properties in the BID. BPC's Chief Operating Officer indicated that New York State law assigns loans that are tied to revenue streams as senior debt, which has allowed them to get fairly affordable interest rates. The Park's 2012 financial statement reflects a $4.0 million term loan with New York Commercial bank (bears 4.3% interest), the proceeds of which were used to finance a new underground power facility in Bryant Park.
Why structured this way?	The non-profit management model emerged as a result of the City's deteriorating financial position, lack of care for the park property in the 1970s and 1980s, and a push by local residents and businesses to improve this urban amenity. Today, the Park is run entirely without assistance from the City and is financially self-supporting.
Charitable Contributions?	Yes. As a 501(c)3 not-for-profit supporting organization (supports the NYC Department of Parks and Recreation and the NYC Public Library), the BPC receives substantial support in terms of charitable gifts and other non-cash donations.

Appendix B

MODEL 1 -- GRAND PARK – LOS ANGELES, CA

Ownership / Management	Grand Park is owned by both the City of Los Angeles (City) and the County of Los Angeles (County) and is managed by the Music Center, a private, non-profit 501(c)3. Grand Park is a new 16-acre urban park in the civic center area of Los Angeles, which was approved as part of a large mixed-use project (residential, hotel, and commercial) called the Grand Avenue Project (Project). The park component of the Project opened in 2012, but construction of the mixed-use component (also on City and County-owned land) has been slow due to the recent recession. The Project is a joint venture of the former Community Redevelopment Agency of the City of Los Angeles (CRA/LA) and the County. In 2003, CRA/LA and the County formed the Grand Avenue Joint Powers Authority (Authority) to oversee selection of a private developer and development of the Project. The selected developer was required to provide funding for construction of the park as part of Project's entitlement process. The Music Center, a non-profit 501(c)3, was chosen to manage the park because of its 49-year track record as the operator of the nearby County-owned Performing Arts Center. As an established entity, the Music Center had the staff and infrastructure in place (programming, administration, human resources department, and security staff) to effectively manage the park. Today the Music Center handles all day-to-day management and event programming for Grand Park under a three-year maintenance, operating, and programming agreement with the County (expires in summer 2015).
Board of Directors	The Music Center's board has a self-appointed board of directors (existing board members nominate and approve new members). Currently, the board consists of 50 members and 21 "emeriti" members (non-voting). The Authority's board consists of four voting members and one ex-officio (non-voting member). Two of the voting members are appointed by the County (currently LA County CEO and County Supervisor), and two of the voting members are appointed by CRA/LA's successor agency (currently CEO of the successor agency and a member of City Council).
Financial Considerations	As mentioned above, the project's private developer funded construction of Grand Park by way of a $50 million ground lease payment to the County. Using these monies, the Authority was able to construct Grand Park, which was officially opened in July 2012. Therefore, neither the City nor the County had to issue bonds to build the park. The Music Center, as operator, provides maintenance, housekeeping, security, programming, and supervision of all permitted park uses. The County funds these services through their annual budget process and maintains oversight of park policies and regulations through their agreement.
Why structured this way?	The Authority was created to bring the owners (City and County) together to develop the Project under one unified vision. The Music Center was chosen to operate Grand Park because of its proven ability to operate the Performing Arts Center.
Charitable Contributions?	Yes. The Music Center accepts charitable contributions as a non-profit organization.

Appendix B

MODEL 1 -- CENTRAL PARK – NEW YORK, NY

Ownership / Management	Central Park is owned by the City of New York (City) and managed by the Central Park Conservancy (Conservancy). Central Park spans 840 acres in Manhattan and contains parklands and lawns, playgrounds, lakes and ponds, walking and bridle paths, ice-skating rinks, a zoo, a wildlife sanctuary, an outdoor amphitheater, a carousel, multiple facilities and concessions, and much more. The City, through the Department of Parks and Recreation, maintains control over park policies, has discretion over all park events and permits, and maintains ownership of all assets. The Conservancy is a non-profit 501(c)3. In 2006, the City renewed an eight year management contract that gave the Conservancy the following day-to-day responsibilities: landscape maintenance, replacement of dead trees and plants, mowing and reseeding, graffiti removal, cleaning playgrounds, clearing walkways and drains, repairing benches, and maintaining and repairing structures and monuments, and running of educational programs for park visitors.
Board of Directors	The Conservancy is governed by a 52-member board of trustees (five members appointed by Mayor; four Ex-Officio members include Manhattan Borough President, Parks Commissioner, Conservancy CEO, and President of the Women's Committee; 43 others are elected by the existing trustees).
Financial Considerations	The Conservancy is funded primarily from contributions made by individuals, corporations, and foundations within the metropolitan area. However, a portion of their funding also comes as contract revenue from the City's Department of Parks and Recreation. The Conservancy's revenue is used to fund major capital improvements, provide horticultural care and maintenance, and offer programs for volunteers and visitors of Central Park. The major capital improvements are not capitalized assets of the Conservancy (rather, they are City-owned assets). The contract revenue mentioned above essentially provides the Conservancy with an annual payment that is tied to the amount the Conservancy raises annually. Further, the Conservancy's contract provides them with up to 50% of the concession revenue earned in excess of $6 million. <u>The Conservancy has not issued bonds</u>. As of June 30, 2012, the Conservancy's endowment has total net assets of $134.4 million (per the FY12 financial statement). Additionally, in October 2012, the Conservancy received a $100 million philanthropic pledge (to be paid over the next five years) for capital and long-term operating needs.
Why structured this way?	The Central Park Conservancy was founded in 1980 by a group of dedicated civic and philanthropic leaders who wanted to improve Central Park's dramatic decline during the 1970s.
Charitable Contributions?	Yes. As noted above, the Conservancy receives charitable contributions

Appendix B

MODEL 1 -- CAMPUS MARTIUS PARK – DETROIT, MI

Ownership / Management	Campus Martius Park is owned by the City of Detroit and managed by the Detroit 300 Conservancy, a private 501(c)3 non-profit organization (Conservancy) since 2003, when much needed upgrades commenced. Completed in 2004, this 2.5 acre urban park in the heart of downtown Detroit also includes an ice skating rink, a public square and year-round entertainment venues. In 2009, the Conservancy became a subsidiary of the non-profit Downtown Detroit Partnership (DDP). DDP is a public-private partnership of corporate and civic leaders that supports, advocates, and develops programs and initiatives in the downtown Detroit area. However, the Conservancy is still responsible for the management, operation, and service delivery for the park.
Board of Directors	DDP's board of directors also governs the Conservancy's work and consists of representatives of business and industry, non-profit organizations, government, and educational institutions. Currently, the board consists of 48 members.
Financial Considerations	The Detroit 300 Conservancy secured the original $20 million to design, build, and endow the Campus Martius Park through private donations (board members and founders included area business, civic, and philanthropic leaders). Under a long term operating agreement with the City of Detroit, the Conservancy secures private funding from the park's neighbors and supporters to operate the park annually. The City supports the park by providing utilities, public safety and special event services. <u>The Detroit 300 Conservancy did not issue bonds to finance the park improvements</u>.
Why structured this way?	Due to deteriorating park conditions and the lack of public funds to upgrade the park, the City turned to the non-profit/philanthropic sector to finance and manage the upgrades.
Charitable Contributions?	Yes. The Detroit 300 Conservancy accepts charitable contributions.

Appendix B

MODEL 1 -- PRODUCE MARKET – SAN FRANCISCO, CA

Ownership / Management	The land associated with the Produce Market is owned by the City and County of San Francisco (City) and managed by the San Francisco Market Corporation, a non-profit 501(c)3 (SFMC). The Produce Market, a 25-acre facility, is the largest wholesale produce market in Northern California and is home to over 30 individual produce vendors. In 2013, the City entered into a 60-year ground lease with SFMC to manage the Produce Market. SFMC owns all of the Produce Market improvements during the term of the lease. SFMC was created as a new non-profit entity in 2012. SFMC is responsible for all facets of property management, such as janitorial services, security, rent collections, common area maintenance, capital repairs and improvements.
Board of Directors	The SFMC board is made up of individual merchants, representatives from the merchants' association, and outside members with financial expertise. The City does not have representation on the board, but routinely attends board meetings.
Financial Considerations	The City has deferred all rental payments from SFMC until such time that SFMC has completed certain capital improvements (anticipated completion within 20 years). After the improvements are constructed and paid for, SFMC will continue to be responsible for property management but any excess revenues will be paid to the City as rent. <u>SFMC seeks credit in the market like any other non-profit borrower and has not issued bonds</u>. The deferred rent was a way to allow SFMC to show equity to borrow against and fund the phased development and for SFMC to manage and operate the Produce Market without any direct impact on the City's General Fund. Rents from merchant subtenants at the Produce Market pay for SFMC's management services and will also pay for future loan repayments (i.e. deferred rent) to the City for capital improvements.
Why structured this way?	Under this structure, the Produce Market is operated at no cost to the City and insulates the City against liabilities. The City can exercise some control over the management and policies of the Produce Market by way of the ground lease with SFMC.
Charitable Contributions?	SFMC is a capable of collecting charitable contributions as a non-profit entity. Given that it is a relatively new organization and its limited mission, it is unclear how viable the philanthropic resources will be or if they are pursued at all by the organization.

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MODEL 1 -- GOLDEN GATE PARK CONCOURSE – SAN FRANCISCO, CA

Ownership / Management	The Golden Gate Park Concourse is owned by the City of San Francisco and managed by the Golden Gate Park Concourse Authority (GGPCA), a non-profit 501(c)3 created through a 1998 ballot initiative (Proposition J). The Concourse area includes the underground parking facility and the landscaped surface area between the California Academy of Sciences and the deYoung Museum, known as the Music Concourse. The purpose of the GGPCA was to design, operate, lease, and construct (among other duties) an underground parking garage and to improve and landscape the surface area of the existing Music Concourse. The Music Concourse Community Partnership (MCCP), a private non-profit 501(c)3, entered into a ground lease with the City (acting through the GGPCA and the Recreation and Park Commission) to construct and operate the underground parking facility. MCCP was created as a new entity to raise funds through private donations to finance the construction of the garage. Various issues arose and MCCP could not deliver on their commitment for private financing. The City ended up financing a large portion of the construction, and MCCP secured some bonds and bank loans. MCCP will dissolve once the lease expires, at which time the parking garage operations will be transferred to the City.
Board of Directors	The GGPCA board of directors consists of seven members appointed by the Mayor (the appointments can be rejected by a 2/3 vote of the Board of Supervisors). Directors serve for four year terms and are selected based on their demonstrated interest and knowledge of the GGPCA; knowledge of parks, environment and conservation, transportation, museums, Golden Gate Park, structural engineering, architecture, or landscape design. MCCP is governed by a seven-member board of directors that is self-appointed. There is no City representation on the board. Some MCCP board members are also board members at the deYoung Museum and the California Academy of Sciences (or on staff at these institutions, but there is no requirement for this type of representation.
Financial Considerations	Bonds were issued on behalf of MCCP on a tax-exempt basis by the Association of Bay Area Governments Finance Authority for Nonprofit Corporations (the conduit issuer). The conduit then loaned the proceeds to MCCP pursuant to a loan agreement. The proceeds were used to construct the parking facility. The Board of Supervisors maintains control of the parking rates through ordinance. The lease required the City to set the parking rates and charges at level sufficient to meet MCCP's obligations. Through the lease agreement the City maintained control over certain bond-related decisions (i.e., refinancings), but was insulated against liability in the event of default. Once the 30-year term of the bonds has ended, the parking garage and concourse area operations will be returned to the City's Recreation and Park Department and go back into its capital funding program. Today, the GGPCA meets infrequently as their primary responsibility to design and oversee construction of the parking garage has been completed.
Why structured this way?	The goal of this model was to maximize the philanthropic contributions through MCCP in order to finance the construction (which ultimately did not work out as planned). In addition, this model was intended to limit the City's liability.
Charitable Contributions?	Yes. MCCP can and did accept private charitable contributions. They were, however, unable to raise the amount originally expected to fully finance the construction.

Appendix B

MODEL 1 -- LINCOLN CENTER – NEW YORK, NY

Ownership / Management	The Lincoln Center campus includes land and buildings owned by the City of New York, including the New York State Theater, a library/museum, and a parking garage (Lincoln Center). The Lincoln Center for the Performing Arts, Inc., a non-profit 501(c)3, is charged with day-to-day management. LCPA was founded in 1956 to develop and maintain a performing arts complex that would sustain and encourage the musical and performing arts. Today, the Lincoln Center is a 16.3 acre complex of buildings in New York City. In addition to operating and maintaining some of the performance facilities, LCPA provides programs and presents concerts that supplement the presentation of its various constituent organizations, which include, but are not limited to, the Julliard School, the Metropolitan Opera, and the New York City Opera. The LCPA has agreements with its constituent organizations to provide use of facilities on the Lincoln Center campus, central facility services and to manage a fund which benefits LCPA and its constituents. Pursuant to these agreements, the costs of providing these services and the funds raised from the consolidated fundraising campaign are allocated among LCPA and its constituents. The City-owned garage at Lincoln Center is operated by the LCPA under a license agreement with the City. The agreement directs all surplus revenues from the garage toward security and maintenance expenses in public areas. LCPA is authorized to seek reimbursement from the City during any year in which the garage operates at a deficit.
Board of Directors	The Lincoln Center board of directors consists of 75 members (excluding Ex Officio members and Directors Emeriti). It is a self-appointing board.
Financial Considerations	The Lincoln Center revenues are primarily generated through private contributions, program service revenue (ticket sales), facilities services, and facility rental income. The Lincoln Center has entered into tax-exempt long-term borrowing through the Trust for Cultural Resources of the City of New York for certain development projects (i.e., revenue bonds). LCPA and the City have several funding agreements for capital support
Why structured this way?	Information not available.
Charitable Contributions?	Yes. The LCPA accepts charitable contributions. As of June 30, 2012, the LCPA had endowment assets of $190.6 million.

MODEL 2 -- PIKE PLACE MARKET – SEATTLE, WA

Ownership / Management	Pike Place Market is owned and managed by the Pike Place Market Preservation and Development Authority (PDA), a public benefit organization chartered by the City of Seattle in 1973. Pike Place Market is a public market overlooking the Seattle waterfront. It is one of the oldest continuously operated public farmers' markets in the United States. The market is home to many small farmers, craftspeople and merchants, and nearly 500 residents who live in 8 different buildings. The PDA's charter requires it to preserve, rehabilitate and protect the market's buildings, increase opportunities for farm and food retailing, incubate and support small business, and provide services for low income people. The charter prohibits the PDA from relinquishing management, with a few exceptions. Amendments to the charter were adopted in 1992 to, "eliminate the possibility that the public will ever again risk losing control of the property in the Market Historical District." The charter establishes the PDA as a "perpetual authority."
Board of Directors	The PDA has a 12-member Council. Four members are appointed by the Mayor, four by the Market Historic Commission and four are elected by the market "constituency." The Market Historic Commission is an independent, quasi-judicial body under the jurisdiction of the City of Seattle. The Historic Commission is primarily concerned with maintaining and preserving the historic character of the Market. The "constituency" is established within Pike Place Market PDA charter, and exercises public oversight of the Pike Place Market. Any Washington State resident over the age of 16 can become a "constituent" for a $1 annual fee.
Financial Considerations	<u>The Pike Place Market PDA has the authority under Seattle Municipal Code to issue bonds</u> (Seattle Municipal Code: Title 3, Administration; Chapter 110, Public Corporations; Section 420, Bonds and Notes; 3.110.420). The Charter also expressly states that the PDA will have the ability to, "Issue negotiable bonds and notes" (Article V, Powers; Section 13). The PDA generally issues debt through the City of Seattle to as they have more competitive rates. The PDA's 2013 Operating Budget reflects debt service of approximately $1.8 million associated with a 2009 refunding and a 2001 parking garage refunding (among other commercial loans). The majority of revenues for the Pike Place Market PDA are generated through commercial rents, residential rents, and parking fees (surface and garage). A levy was approved by voters in 2008 to fund a major renovation (not a common occurrence). The Charter requires to PDA to publish on all financial encumbrances that, "All liabilities incurred […] shall be satisfied exclusively from the assets and properties of such public corporation […] and no creditor or other person shall have any right of action against the city […]."
Why structured this way?	The structure is intentional and was put in place to ensure the ongoing preservation of the Market while not affording too much authority to any one entity.
Charitable Contributions?	Yes. The PDA's 2013 Operating Budget reflects a $20,000 contribution from the Market Foundation. All other revenue sources are derived from non-foundation sources such as commercial and residential leases and rental fees. The Market Foundation is a 501(c)3 non-profit organization that provides services to low-income neighbors.

Appendix B

MODEL 2 -- THE PRESIDIO – SAN FRANCISCO, CA

Ownership / Management	The Presidio is owned and managed by the Presidio Trust, a non-profit 501(c)3, which was established by an Act of Congress in 1996 as a wholly-owned government corporation (Trust). The Trust was formed to save, preserve, and repurpose the former U.S. Army post for public enjoyment. Today, the Presidio encompasses vast areas of parklands, beaches, recreational open spaces, as well as mixed-use commercial properties, historic buildings, and multiple residential neighborhoods. The Trust manages the leasing, maintenance, rehabilitation, repair and improvement of property within the Presidio under its administrative jurisdiction. The Trust is deemed a public agency for purposes of entering into joint powers agreements pursuant to California government code.
Board of Directors	The Trust is governed by a seven member board of directors. The directors include: The U.S. Secretary of the Interior (or designee) and six individuals appointed by the President of the United States with extensive knowledge and experience in city planning, finance, real estate development, and resource conservation. Members serve for a term of four years.
Financial Considerations	The Trust was provided short-term annual allocations from the federal government (1997-2012) and was designed to be managed through a public/private partnership that would minimize cost to the U.S. Treasury and make use of private sector resources to achieve its mission. Additionally, the Trust may solicit and accept donations of funds and property for the purpose of carrying out its duties. The Trust was also given the authority to issue debt through the U.S. Secretary of the Treasury (however, it does not appear the Trust has utilized this financing mechanism). Today, the Presidio Trust is financially self-sufficient, with funding provided primarily through commercial and residential leases.
Why structured this way?	In 1989 the federal government decided to close the Presidio as a U.S Army post. Although legislation adopted in 1972 had indicated that the Presidio would join the parklands of the Golden Gate National Recreation Area when the Army left, there was no funding provision in the legislation to manage the Presidio's costly transition or ongoing care. As a result, the Trust was created by Congress in 1996 for a dual purpose (1) to operate the site as a vibrant public park independent of the annual federal funds described above by the end of 2012, and (2) to rehabilitate and repurpose the Presidio's historic buildings and environmental resources.
Charitable Contributions?	Yes. The Trust is allowed to solicit and accept donations of funds, property, or services from individuals, foundations, corporations, and private and public entities. In addition to its own fundraising efforts, the Trust has a fundraising partnership with the Golden Gate National Parks Conservancy.

MODEL 3 -- TREASURE ISLAND – SAN FRANCISCO, CA

Ownership / Management	Treasure Island is currently owned by the Navy, but is contractually committed to the City. Ownership will be transferred to the City upon the Navy's completion of environmental remediation work. The City and the Navy have entered into a cooperative agreement whereby the City maintains responsibility for development, roads, utilities, and maintenance. The City acts as master lease holder for Treasure Island. The Treasure Island Development Authority (TIDA) was created in 1997 by the Board of Supervisors as the entity responsible for reuse and development of the Naval Station Treasure Island. Under the Treasure Island Conversion Act of 1997 the California Legislature authorized the Board of Supervisors to designate TIDA as a redevelopment agency under the California redevelopment law. In February 1998, the Board of Supervisors designated TIDA as a redevelopment agency. Today, TIDA essentially operates as a City agency, under the City Administrator's Office. TIDA is staffed by City employees (City Administrator's Office and Office Economic and Workforce Development) who handle day-to-day management.
Board of Directors	TIDA is governed by a seven member board of directors, who are appointed by the Mayor (with approval of the Board of Supervisors for certain appointments). The Supervisor for District 6 sits on the board as a non-voting member. The board has responsibility for oversight of the interim reuse of the island as well as the master development planning process. The Treasure Island/Yerba Buena Island Citizen Advisory Board (CAB) meets regularly and advises TIDA as needed on development matters. Members of the CAB represent of the following categories: affordable housing, marine and waterborne activities, film/television industry, Job Corps, commercial redevelopment, organized sports, the environment and open space, environmental control and remediation, organized labor, transportation planning, land use planning, economic development and job creation, and open meeting advocacy.
Financial Considerations	Sources of current and future funding include the City, developer subsidies, property taxes generated through the creation of Mello-Roos Community Facility Districts, Infrastructure Financing Districts, residential, commercial and master home owners' association dues, and commercial and residential leases. TIDA would have access to debt through the City's capital planning program.
Why structured this way?	TIDA was formed originally because of its access to tax increment financing. In January 2012, the Board of Supervisors rescinded TIDA's redevelopment status. In addition, TIDA, as originally constructed, insulated the City from liability.
Charitable Contributions?	No.

Appendix B

MODEL 3 -- MILLENNIUM PARK – CHICAGO, IL

Ownership / Management	The City of Chicago (City) is both the owner and manager of the Millennium Park, a 24.5 acre site that includes a music pavilion and lawn, gardens, fountains, and other cultural and entertainment-related amenities. The City's Department of Cultural Affairs and Special Events (DCASE) oversees all park operations, events, etc.
Board of Directors	Not applicable. DCASE is a City department.
Financial Considerations	Future capital needs would be financed through the City's capital program. The initial construction of Millennium Park (which was completed about four years behind schedule and at three times the projected cost) relied heavily on private donations from Chicago's business community. Additionally, the City issued bonds to construct much of the Park.
Why structured this way?	Information not available.
Charitable Contributions?	Yes. A non-profit organization, Millennium Park, Inc., was created by area business leaders to help pay for the park's original construction and continues to help grow the Park's endowment. In total, private donors contributed more than $200 million toward the construction, which was estimated at more than $450 million.

Appendix B

Additional information may be obtained through the following websites:

- *Bryant Park – www.brantpark.org*
- *Grand Park – www.grandparkla.org*
- *Central Park – www.centralparknyc.org*
- *Campus Martius Park – http://www.downtowndetroit.org/programs/campus-martius-park/*
- *Produce Market – www.sfproduce.org*
- *Golden Gate Park Concourse*
  - *www.goldengateparking.com*
  - *http://sfrecpark.org/about/community-meetings/golden-gate-park-concourse-authority/*
- *Lincoln Center – www.lincolncenter.org*
- *Pike Place Market – www.pikeplacemarket.org*
- *Presidio Trust – www.presidio.gov*
- *Treasure Island – www.sftreasureisland.org*
- *Millennium Park – www.millenniumpark.org*

Appendix C

ALTERNATIVE CAPITAL FINANCING TOOLS FOR YERBA BUENA GARDENS

Since its creation over twenty years ago, the Gardens and related properties have relied on the availability of tax increment funds on either on a pay-as-you-go basis or leveraged through the issuance of tax increment bonds to cover capital needs. Because of the expiration of the Yerba Buena Center Project Area in 2011, project area tax increment funding is no longer available.

As OCII, the City, and community stakeholders evaluate new ownership and management structures for the Gardens, it is important to consider possible methods for financing capital reinvestment in the Gardens facilities. The methods of finance must be selected and utilized keeping in mind the possible new management and ownership structures for the Gardens, since both are closely intertwined. Because of timing and other considerations, multiple financing tools may be needed to support reinvestment in Gardens infrastructure.

Additionally, it is important to consider other criteria such as:

1. **Credit Quality:** The credit quality of the financing method will be the primary determinant of its cost. Credit quality will be determined by the strength of the security backing each alternative financing method. These methods may be secured by revenues and assets of the backing organization. The security for debt will be carefully scrutinized by the capital markets to determine a perceived level of risk. The methods considered here encompass a wide range of credit quality, from well below investment grade to very high investment grade. The financing cost associated with each financing method will fundamentally affect the amount of capital financing that can be done, the cost of that capital and when the financing can be done. Credit quality may vary over time based on the changing financial capacity of the institution carrying out the financing, and the evolving views of the capital markets.

2. **Timing:** We attempt to categorize the alternatives considered according to how much time will be required to access the capital markets. The time required is in part a logistical consideration, but in many cases, it must also take into account the realities of achieving consensus among stakeholders on the proposed methods of finance. Although these judgments regarding time requirements are inherently imprecise, we have tried to categorize each alternative as "**short term**" from 1-3 years, "**mid-term**" from 4-6 years, and "**long term**" from 7-10 years.

3. **Complexity:** Each of the financing tools entails an inherent degree of difficulty based on its logistical requirements, required approvals, and the need to reach stakeholder consensus. While it is difficult to describe precisely the difficulty of using each tool, we can at least consider the relative degrees of complexity that allow us to draw distinctions among the alternatives. In general, the more complex the tool, the more difficult its execution may be, both from the perspective of achieving needed approvals, and from the perspective of the capital markets, who will need to understand it clearly. Therefore, higher complexity may translate into higher risk.

4. **Resilience:** Some financing tools are more susceptible than others to risk or failure due to changes in economic conditions, and to changes in management or leadership. None of the tools are completely immune to these factors. However, it is possible to draw distinctions among the tools based on their inherent resilience to these types of changes.

5. **Other Factors:** This criterion is used to discuss relevant considerations that are specific to some of the financing tools, and do not apply across the board.

6. **Fit with Ownership/Management Models:** As noted above, this criterion is used to assess the "fit" with the future ownership/management structures being considered for the Gardens.

ALTERNATIVES

PFM explored nine alternative capital financing tools for consideration. We should note that these are not mutually exclusive and may in fact be complementary. So, the following alternatives can be thought of as a menu of choices, any number of which may be utilized:

1. Capital charges for existing tenants
2. Development of a long-term financing plan that permits capital investment
3. Special Assessment Districts
4. Mello-Roos District (Community Facilities District)
5. 501c3 Bonds
6. Charitable fund raising via tax-deductible donations
7. Infrastructure Financing Districts (IFDs)
8. Certificates of Participation (COPs)
9. General Obligation Bonds

Each of these financing tools will be described and analyzed in the sections that follow based on the criteria described above.

ALTERNATIVE 1: CAPITAL CHARGES FOR EXISTING TENANTS

The Gardens have utilized Gardens Maintenance, Operations and Security (GMOS) charges and rental income to create a revenue stream that supports operations of the facilities, support for cultural operations, and Gardens programming. These fees are assessed on a variety of lessees and owners within the Gardens, and have created a stable and reliant stream of revenue.

In addition to GMOS and lease revenue, a new "Gardens Capital Improvements" fee, dedicated to a capital investment might be considered. This would obviously require a discussion with the lessees and owners in order to determine amounts that are feasible and justifiable, as well as amendments to existing agreements. If this approach is acceptable, it may need to be phased in over time to permit adjustment to the new charges. This idea is in fact a revenue stream rather than a financing method. However, it has the potential to substantially bolster the power of the larger financial plan described in Alternative 2, discussed below.

1. **Credit Quality:** On its own, this would not provide investment grade access to the capital markets. It would not permit the use of publicly issued debt, but might be used to support privately placed bank debt.

2. **Timing:** The process of negotiating increased charges with existing lease holders and amending leases would likely require a number of years. This alternative would appear likely to fall into the short-term (1-3 year) range, although it is likely to be at the longer end of that timeframe.

3. **Complexity:** This would require a significant effort to build stakeholder consensus regarding the need for improvements and the fairness of using this method for that purpose. Achieving broad agreement on an equitable approach may be difficult. Once established, it is a relatively straightforward, ongoing funding source.

4. **Resilience:** Changes in economic conditions, as they affect the tenants of the Gardens, may in turn affect this capital revenue source. However, if a fair basis for the charges can be reached and the capital charges put in place, then they are likely to remain in place, albeit subject to some fluctuation with economic conditions (for example adjustments based on the Consumer Price Index).

5. **Other Factors:** This is less a tool than a revenue source, but can provide important support to other revenue enhancement efforts, thereby supporting the overall strength and potential debt capacity of a new management entity.

6. **Fit with Ownership/Management Models:** This revenue stream would appear to be most likely to fit with Model 1 or Model 2, but there is no prohibition on its use with Model 3.

ALTERNATIVE 2: MANAGEMENT OF EXISTING COSTS AND REVENUES; DEVELOPMENT OF A TEN-YEAR FINANCIAL PLAN

The existing streams of revenues have proven adequate to cover the operating costs of Gardens facilities, supporting cultural operations, and programming activities. The objective of creating a ten-year financial plan would be to create a positive differential between revenues and costs such that debt capacity could be created. This strategy would require creation of a long-term financial plan and protocols for adherence to that plan. (See the box at the end of this section for specifics on the development of a long-term financial plan.)

The plan would include an operating model based on the current profile of revenues and costs, and would identify and recommend strategies for potential increases in existing revenues, and/or creation of new revenue sources (as in Alternative 1 above). The plan would also include a critical analysis of the existing uses of funds, and would recommend how to either reduce costs or to reduce the rate of increase of certain costs. Through implementation of strategies to reduce costs and increase revenues, the plan would permit the growth of annual surpluses that would strengthen the balance sheet of the future Gardens ownership/management entity, permit the accumulation of capital reserves, and allow the possibility of access to the capital markets for debt.

1. **Credit Quality:** A stand-alone entity, even with substantially improved financial statements and a strong balance sheet, will not likely achieve investment grade ratings. However, if financial metrics can be improved over time, and a sustainable surplus of revenues over costs established, there will be ability to access capital at tax-exempt rates, probably through private placement. This approach will require a long-term demonstration of coverage ratios (the ratio of revenues over costs) that is highly relative to some other financing tool, perhaps as high as 2 to 1. (By way of comparison, tax increment debt required a 1.25 to 1 coverage ratio.) The challenge of demonstrating long-term financial strength may argue for greater use of current revenues to pay for capital needs, especially

during the short to mid-term. This could be considered in combination with a strategy to access the capital markets through debt issuance in the long-term and beyond. Put another way, surplus annual revenues could be accumulated for the purpose of creating a capital reserve, which could be used in the mid-term. A successful long-term plan would demonstrate the sustainability of annual revenue surpluses in order to support potential debt issuances in later years.

2. **Timing:** Development of a plan and its successful execution is at least a mid-term effort (probably five years). If successful, surpluses could be used on a current basis for limited capital needs. Over the longer run, the sustained surpluses could be used to access the capital markets.

3. **Complexity:** The development of a long-term financial plan requires development of a range of critical assumptions that are difficult to predict. These assumptions affect both the revenue and cost side of the equation. Varying these assumptions in a sensitivity analysis will be important in order to understand the range of possible outcomes. Once developed, the plan will require strong management in order to implement it effectively over time, especially as conditions change in ways that may be unexpected. In summary, the development of the plan and its execution are subject to many uncertainties and the effort is inherently complex.

4. **Resiliency:** Both the costs and revenues in the financial plan are subject to changing economic conditions. It will be important in the financial planning process to model and consider how changing economics will affect financial capacity. This can be done through the use of “stress tests” that look at outcomes in the light of negative revenue and cost assumptions.

5. **Other Factors:** PFM recommends the development of a ten year plan regardless of the management model or the choice of capital financing tools. The plan can become an important tool in maintaining the financial sustainability of the Gardens.

6. **Fit with Ownership/Management Models:** The development of a long term financial plan is important for any ownership/management model. It may be more important for Model 1 and Model 2 because of their greater independence from the larger financial resources of the City. Government agencies (Model 3), may feel the least incentive to develop and implement effective revenue enhancement and cost-cutting strategies given their potential reliance on other revenues.

Development of a Long-term Financial Plan
Regardless of the model chosen, it will be important to undertake the development of a long-term financial plan that embodies a set of specific financial and operating objectives leading to sustainability. The first step in development of the plan will be to build a model based on the current levels of revenues, costs and debt capacity. The primary work of the plan will be to examine critically each of the revenue and cost components to determine what actions could be taken to improve the operating statement and balance sheet, thereby building capacity for reinvestment in capital, and strengthening overall financial resiliency. One of the tasks will be a careful study of operating costs to determine whether there are opportunities for cost savings or a need to reallocate costs to improve efficiency. Another task will be to develop and analyze opportunities to increase existing revenue streams, and to develop new ones. One product of this work will be creation of a dynamic financial model that can be used to model scenarios over the long term based on changing assumptions. Another product will be a series of recommended actions aimed at modifying the status quo in a way that improves long-term operating results and creates debt capacity.

ALTERNATIVE 3: SPECIAL ASSESSMENT DISTRICTS (EXCLUDING COMMUNITY BENEFIT DISTRICTS)

We are using this category to refer to a broad range of assessment methods embodied in State legislation beginning over a hundred years ago. The most common forms of special assessment districts are 1915 act bonds, and Landscape and Lighting Districts, but there are a wide variety of others. The basic concept behind special assessment bonds is that property owners pay a property tax surcharge in proportion to the benefit conferred. Special assessments have been widely used over time to pay for a full range of public improvements. Proposed assessments must be supported by an engineer's report describing the cost of the improvements needed, the duration of the assessment needed, the proposed cost allocation, and information regarding the timing and process for the vote on the assessment. The landowner vote must be approved by the Board of Supervisors at a public hearing. Landowners within the boundaries of the area vote by mail, and a majority of voters are required to reject the assessment.

1. **Credit Quality:** Bonds supported by special assessments are likely to be in the middle range of credit quality among the alternatives considered here. While not the most highly rated form of debt, they are well understood in the credit markets, and are clearly feasible. The high levels of property values already existing in the district are likely to support the strength of this credit.

2. **Timing:** The administrative tasks required to create a special assessment district would not require a long period to execute. The main challenge of this process would be the work required with stakeholders, including those property owners who would actually pay the tax. There would need to be a clear agreement regarding the need for the assessment and the benefit created by the assessment. The time required for this effort would appear to fall into the short-term range, about three years, but possibly longer.

3. **Complexity:** The process for creating a district does require significant time and effort, and depends on significant effort to arrive at stakeholder consensus regarding the need for and benefits conferred by a tax increase.

4. **Resilience:** The assessment does not vary with economic conditions, and cannot be easily withdrawn. Therefore, this method is quite resilient.

5. **Other Factors:** Over the last several years, significant legal challenges to the use of special assessments have arisen based on the difficulty of creating a clear nexus between the costs and benefits of the assessment. These challenges have made the use of new assessments extremely difficult until there is clarifying State legislation. For the purposes of this analysis, we will assume that these challenges are resolved favorably.

6. **Fit with Ownership/Management Models:** This method could be used with all of the ownership/management models under consideration.

ALTERNATIVE 4: MELLO-ROOS OR COMMUNITY FACILITIES DISTRICTS

Mello-Roos Districts (sometimes called Community Facilities Districts or CFDs) have been used over the last thirty years throughout California. The legislation was originally passed in part as a response to the difficulties created for financing of infrastructure after the passage of Proposition 13. CFDs provide a flexible method of setting assessments on properties for the purpose of financing most kinds of public infrastructure. The creation of a CFD requires a two-thirds vote of property owners and residents within the district, and approval of the Board of Supervisors. CFDs have been

used in a wide variety of contexts, and have been used increasingly in urban settings where they are imposed on an existing developed area. They were frequently used in combination with tax increment and other forms of public financing. CFDs have been used several times in San Francisco, in Rincon Point/South Beach, in Mission Bay, and by the Unified School District (a city-wide district). While more typically used in relatively undeveloped areas, there are examples of their use in more fully developed environments.

Bonds backed by CFD revenues are secured by the special taxes flowing from the properties in the districts, and the ability of the CFD to place a lien on properties that do not pay their taxes. One of the metrics used to determine the credit quality of CFD bonds is the "value to lien ratio," which measures the total value of property within the district compared to the total amount of debt. A 3:1 ratio is considered the minimum required, but would not allow investment grade debt. Higher ratios, of 10:1 or higher, may permit investment grade debt. In this case, with a highly developed area, we would anticipate a relatively high value to lien ratio.

1. **Credit Quality:** The credit quality of CFD bonds depends on the size and diversity of the district, and on the value of the property within the district. While this district would not be large, it is fairly diverse, and benefits from being highly developed and having already high values. The CFD bonds from this district would likely be investment grade, possibly in the A to AA range.

2. **Timing:** The administrative aspects of creating a CFD would require about a year. The more challenging task of creating a consensus regarding a fair method of assessment, or even an agreement to utilize this method of finance, would presumably require at least an additional year. Therefore, this is a financing tool that could be used in the short-term, within the first three years.

3. **Complexity:** Although the process is quite complex and can take several years, the widespread use of Mello-Roos within the State is a good indication of the ability to navigate these challenges. The primary complexity in this case is the creation of stakeholder consensus regarding the need for the tax and the exact method of imposing the tax.

4. **Resilience:** The assessments do not fluctuate once put in place. The great recession witnessed a higher percentage of homeowners defaulting on Mello-Roos obligations, but there were very few bond defaults because of the backup security provided by the value of the property backing the bonds. Therefore, this should be viewed as a very resilient financing method.

5. **Other Factors:** None.

6. **Fit with Ownership/Management Models**: This alternative would work with any of the ownership/management models. However, CFDs are most commonly used within government entities, such as Model 3.

ALTERNATIVE 5: 501C3 BONDS

501c3 nonprofit organizations are permitted to issue debt through conduit entities such as Association of Bay Area Governments or the California Infrastructure Bank. These conduits serve as intermediaries between 501c3 and the capital markets. The bonds are technically sold to the market by the conduit, and secured by a loan agreement with the 501c3. The terms of the loan agreement with the conduit entity vary from case to case, but will typically require revenue commitments in the form of coverage requirements, and may require backup security from assets. The conduit issuers are not enhancing the credit of the 501c3 bonds; they simply pass through the conduits to the capital markets. These bonds are widely used within the health care and education sectors, and are occasionally used by cultural institutions, including those within San Francisco such as the DeYoung Museum and the Jewish Community Center.

1. **Credit Quality:** There is a wide variation in credit quality depending on the financial strength of the issuing entity. 501c3 bonds can be rated in the high investment grade categories (A or AA), but are frequently unrated and below investment grade. In this latter case, a relatively new non-profit without the benefit of record of financial strength would likely be a relatively difficult and expensive credit. Nonetheless, in combination with the strategy described in Alternative 2 above, it would be possible for a non-profit to gain access to the credit markets over time.

2. **Timing:** This would have to be viewed as a longer-term method of accessing the capital markets, probably in the 5-10 year range. While a viable method of finance, it is best thought of as an alternative that would dovetail with shorter-term methods.

3. **Complexity:** The bond issuance is not highly complex. However, the process of achieving a level of financial sustainability (as described in Alternative 2 above) would be necessary prior to issuing debt.

4. **Resilience:** The resilience of the method depends on the financial resilience of the organization's own balance sheet. 501c3's are often affected negatively by challenging economic circumstances. Therefore, this method cannot be viewed as highly resilient.

5. **Other Factors:** The usefulness of this tool should be considered in conjunction with the potential use of charitable donations as a revenue stream, as described in Alternative 6 below.

6. **Fit with Ownership/Management Models:** This alternative is well suited to Model 1. However, it is possible for Model 2 to be created as a 501c3, thereby enabling it to use this financing method. Although its use in conjunction with Model 3 is unusual, it is possible for a public entity to create a 501c3 as an "instrumentality" with a mission to support the work of the public entity. In these cases, the 501c3 can issue debt in support of the public entity. For example, locally, UCSF recently created a 501c3 for the purpose of financing its neuroscience laboratory building in Mission Bay. In these situations, the revenues supporting the loan agreement between the public entity and the nonprofit typically derive directly from the public entity.

ALTERNATIVE 6: CHARITABLE FUND RAISING

Non-profit organizations across the country create substantial, ongoing revenue streams through charitable fund-raising efforts. The donations made to these organizations are deducted from the donor's income in calculating their tax liabilities. This mechanism has been one of the cornerstones of the financial sustainability of non-profits for decades. Total charitable donations in 2012 amounted to over $300 billion nationwide (according to the National Philanthropic Trust). There are over a million non-profits in the United States. Estimated donations over the next forty years could range as high as $55 trillion.

A 501c3 organization could be created (also referred to here as Model 1) with the mission of managing and setting policy for the Gardens and related assets. This entity would be eligible to receive charitable donations. Model 2 could also be structured as a non-profit entity, and Model 3 could create and utilize a closely-held 501c3 to support its activities. For example, the nonprofit San Francisco Parks Alliance serves as a fund-raising entity on behalf of the City's Recreation and Parks Department.

It should be noted that creation of a 501c3 does not at all ensure success in raising charitable donations. Fundraising is highly competitive, and many organizations struggle

to survive on these revenues. In fact, both charitable giving and the number of non-profits fell during the recession.

1. **Credit Quality:** Since this is a revenue stream rather than a financing instrument, it doesn't create any inherent credit quality. However, it is worth pointing out that charitable donations are not viewed as a very strong or stable revenue stream due to their volatility. They can be supportive of credit strength when coupled with other revenues and assets.

2. **Timing:** This revenue stream should be viewed in light of the development and implementation of a long-term financial plan, as described in Alternative 2 above. In this sense, the development of a reliable stream of charitable donations is likely to be a long-term effort, probably in the seven to ten year timeframe. The development of a plan to encourage and grow charitable donations should be a component of the financial plan, and will require special expertise to assist in its development.

3. **Complexity:** A serious charitable fund-raising effort would be a complex undertaking. It would be necessary to create an understanding of the potential donors to the organization, how to communicate with those donors, and how to convince them to actually give to the organization over a period of time. The level of donor willingness (or resistance) will vary depending on many factors, including the mission of the organization.

4. **Resilience:** As noted earlier, the sustainability of charitable donations is a serious concern. The recent recession witnessed large reductions in the level of charitable donations. The volatility of donation levels also means that they can increase rapidly as well. Therefore, the management of this revenue stream is a challenge for organizations that often need every dollar they can raise.

5. **Other Factors:** Any future legislative effort to limit tax deductions could have a dampening effect on charitable giving. This has been discussed many times in the past, and has been proposed in recent years, but does not seem likely in the near term.

6. **Fit with Ownership/Management Models:** While it is possible for any of the three models to create a 501c3, and to receive charitable donations, the likelihood of successful fund-raising campaigns would be highest with Model 1, somewhat less high with Model 2, and least high with Model 3. Donors, especially large ones, including foundations, are often concerned that their

donations not supplant or replace public sector support. For example, some foundations (the Irvine Foundation is a local example) do not contribute to any "public" organization, or even any organization receiving substantial public support. This broad concern within the philanthropic sector will be a concern for all of the models. However, Model 1, as a free-standing non-profit, would appear to suffer less from being connected to government. It should be noted that the ongoing revenue streams from the leases may create an appearance of government support. Model 2, as a quasi-governmental organization, sanctioned by the local government, might be perceived more than Model 1 as being close to governmental financial capacity, and therefore less likely to create a robust stream of charitable donations. Model 3, as an entity of local government, would experience the greatest challenge in fund-raising because of its access to government revenue support. However, it must be noted that there are examples of fund-raising efforts in support of public entities. For example, the San Francisco Recreation and Park Department has a foundation that supports its efforts.

ALTERNATIVE 7: INFRASTRUCTURE FINANCING DISTRICTS (IFDS)

IFDs have existed in State law for about twenty years but were seldom used when traditional redevelopment tax increment financing was available. In fact, only a few IFDs have been created to date, although many more are in the planning stage. The dissolution of redevelopment has caused greater interest in the use of this approach. Like tax increment financing, this method is based on the growth of assessed value within a defined boundary; the increase in property taxes over time (tax increment) is then used as a revenue to support debt issuance. Therefore, the ability to access bond capacity and to issue debt is directly linked to the amount of increase in property values over time. Like Mello-Roos districts, IFDs require a vote of two-thirds of the residents and property owners in the district. The Board of Supervisors must also approve creation of the district. There is one existing IFD in San Francisco, a single-site district on Rincon Hill. Both Treasure Island and the Port are planning extensive use of IFDs to support future infrastructure investment. As with Mello-Roos districts, it is clearly easier to impose these on undeveloped parcels with relatively few owners than on fully developed areas such as Yerba Buena.

1. **Credit Quality:** Given the relative newness of this method, the credit quality is not well-tested. However, it is reasonable to expect it to be similar to redevelopment tax increment and Mello-Roos. This will depend in part on the size and diversity of the district, and the rate of growth of tax increment. Within the Yerba Buena Gardens neighborhood, the fact that the area is mostly built out

means that the rate of growth will likely be less than in an undeveloped area. The fiscal capacity of the district will depend on organic growth in real estate values. This will be accounted for in the credit quality and pricing of the bonds. However, the diversity and intensity of the existing development in the neighborhood will contribute positively to the perception of the credit. Depending on timing and the amount of growth that has occurred, this financing method could be initially unrated, or could achieve a low investment grade rating.

2. **Timing:** This is a long-term strategy that requires some years (probably in the seven to ten years) of tax increment growth before there is substantial capacity. As noted before, there does not appear to be an opportunity for rapid growth in the area given its already high level of development. Therefore, bond capacity will depend on the value growth of existing properties.

3. **Complexity:** Since the process for approval is similar to a Mello-Roos, it has a similar level of complexity. It may be somewhat more difficult because it is relatively untried. The fact that it does not impose new taxes may make the approval process somewhat easier for the affected landowners. It should also be noted that there is concern within the City regarding the demand for and possible proliferation of IFDs. This may result in development of city-wide criteria and policies that could affect the possibility of using this mechanism.

4. **Resilience:** The growth in tax increment is subject to economic changes. The dependence on the organic growth of existing development means that the fiscal capacity of the area may be somewhat more susceptible to downturns in the real estate market, as opposed to the capacity of an IFD in a newly developed neighborhood. Despite this issue, this method will provide ongoing access to the credit markets.

5. **Other Factors:** The ability to use this in former redevelopment areas may require legal or legislative clarification.

6. **Fit with Ownership/Management Models:** This alternative could be used with all of the models.

ALTERNATIVE 8: CERTIFICATES OF PARTICIPATION (ISSUED BY CITY AND COUNTY OF SAN FRANCISCO)

The City has the ability to issue debt backed by the value of its real estate assets. This method does not require a vote of the people (like general obligation bonds discussed in

Alternative 9) but is typically used only for very high-priority public uses. This form of debt is backed by an asset owned by the City, such as a hospital, fire station or other facility. Although it is common to use the asset being financed to back the lease, it is possible to use an entirely different asset, especially during the initial years of the financing. Since the City's asset base is limited, it has to utilize this resource very carefully. Over-leveraging of assets would reduce the City's credit rating.

The debt service on COPs is paid directly from the City's general fund. Therefore, their use competes directly with the many demands on the general fund for operating and capital support. The use of COPs is managed through a careful and highly competitive capital planning process, which continually examines the best methods to meet the City's capital needs. After being recommended through this process, a Board of Supervisors vote would be required for approval.

Although the City typically issues COPs for publicly-owned assets, this is not a requirement. The proceeds from COPs can be used for any "public use," such as those owned by non-profits and used for public purposes. It should be noted, however, that if the asset is not publicly owned, then the COP would need to be backed by another publicly-owned asset.

The City typically uses COPs in situations where they expect the benefiting agency to receive revenues sufficient to pay the new debt service on the bonds.

1. **Credit Quality:** COPs are one of the highest quality sources of capital available to the City. San Francisco's COPs are currently rated in the AA category.

2. **Timing:** Approval through the City's capital planning process would take at least one year, and possibly more. This should be viewed as an alternative that could be accessed within short-term, but depending on competing demands, could take much longer.

3. **Complexity:** The actual issuance of debt is not complex. However, the negotiation of the capital planning process is competitive and complex.

4. **Resilience:** This method of finance is subject to change due to economic conditions, the rating of the City, and political conditions. Despite these concerns, this is a highly reliable form of financing.

5. **Other Factors:** COPs are usually used to support more mainstream public infrastructure projects. However, there is some recent history indicating a

willingness to use COPs to support economic development efforts. For example, the City will shortly issue COPs for improvements at the Port.

6. **Fit with Ownership/Management Models:** COPs have been utilized almost entirely for traditional public infrastructure, which places them more within Model 3. There is no precedent, which we are aware of, for using them in San Francisco for ownership/management structures like Model 1 or Model 2. However, the Gardens are a unique piece of public infrastructure, and the need for investment there may warrant unusual methods.

ALTERNATIVE 9: GENERAL OBLIGATION BONDS

The City periodically puts general obligation bonds on the ballot that require a two-thirds vote for approval. While the recent record of approval of general obligation bonds has been high in San Francisco, this is a result of the City's determination that only highly-valued projects are placed before the voters. Recent approvals have included bonds for Recreation and Park facilities, street improvements, and public safety improvements. General obligation bonds are secured by an add-on to the basic property tax rate. The City manages the overall level of general obligation debt to ensure that the overall level of taxation is flat, thus ensuring long-term stability, and avoiding political opposition based on spiking taxation. It is not unusual for general obligation bonds to wrap together a variety of related improvements. For example the recent Recreation and Park package included improvement of public spaces for the Port. Public Safety bonds may include improvements for Police, Fire and the Sheriff. This approach allows the inclusion of portions that may not attract strong support in isolation. This approach might be considered in the case of improvements for the Gardens assets, since these assets might not, on their own, attract sufficient public support.

1. **Credit Quality:** High investment-grade range. Currently AA.

2. **Timing:** General obligation bonds must go through the City's capital planning process and the process for internal approval to put a bond measure before the voters is long and arduous. Determining the feasibility of a measure may require polling of likely voters. The challenges of negotiating this process would have this financing tool fall into the mid-range to long-range term for timing, probably three to six years.

3. **Complexity:** The bond issuance is straightforward. However, the process of getting a measure before the voters that includes improvements for the Gardens will require significant effort and political support.

4. **Resilience:** This method is highly resilient over time. However, the public's willingness to vote for these measures does ebb and flow periodically.

5. **Other Factors:** As noted before, Gardens improvements would likely be combined with other City improvements in a general obligation bond. Even with that, it is not clear that the use of this tool is likely to be successful for the Gardens because the nature of the investment is very unusual for general obligation bonds.

6. **Fit with Ownership/Management Models:** This alternative works better with Model 3, since it is traditionally done in conjunction with publicly-owned and managed facilities, and would enable an argument to be made more clearly that this is a City-owned property requiring traditional City methods of financing..

Appendix C

COMPARATIVE TIMING CHART & MODEL MATRIX

COMPARATIVE TIMING CHART

The chart below shows the likely timing of availability of capital funds from the alternatives PFM has considered. This may be helpful for considering how some of the alternatives may be dovetailed together to provide access over varying periods of time.

Financing Alternative	Applicable Model	Short-Term (1-3 years)	Mid-Term (4-6years)	Long-Term (7-10 years)
1. Capital charges for existing tenants	1, 2, or 3	X		
2. Development of a long-term financing plan that permits capital investment	1, 2, or 3		X	
3. Special assessment districts	1, 2, or 3	X		
4. Mello-Roos district (Community Facilities District)	3	X		
5. 501c3 bonds	1; 2 to a lesser degree*		X	X
6. Charitable fundraising via tax-deductible donations	1; 2 to a lesser degree			X
7. Infrastructure Financing Districts (IFDs)	1, 2 or 3			X
8. Certificates of Participation (C.O.P.'s)	3; 1 or 2 to a lesser degree	X	X	
9. General Obligation bonds	3		X	X

* The timing for use of 501c3 bonds for either Model 1 or 2 will depend primarily on the outcome of the long-term financial plan. If sufficient balance sheet strength can be developed in the mid-term, then it could be possible for an entity to issue 501c3 bonds within the mid-term time horizon (4-6 years).

- Model 1: City Ownership and Non-Profit Management Models
- Model 2: Other Public Entity Ownership and Management Models
- Model 3: City Ownership and City Management Models

Appendix C

MODEL MATRIX

Available Capital Financing Tools (Short to Long-Term Time Horizon)			
	Short-Term (1-3 years)	**Mid-Term (4-6 years)**	**Long-Term (7-10 years)**
Model 1 City Ownership & Non-Profit Management	• Capital charges for existing tenants • Special assessment district	• Development of LTFP* that permits capital investment • 501c3 bonds (most prevalent in Model 1)**	• 501c3 bonds (most prevalent in Model 1) • Infrastructure finance districts • Charitable fundraising (most prevalent in Model 1)
Model 2 Other Public Entity Ownership and Management	• Capital Charges for Existing Tenants • Special Assessment District	• Development of LTFP* that permits capital investment • 501c3 bonds** • C.O.P.'s	• 501c3 bonds • Infrastructure finance districts • Charitable fundraising
Model 3 City Ownership and City Management	• Capital charges for existing tenants • Special assessment district • Mello-Roos district	• Development of LTFP* that permits capital investment • C.O.P.'s • G.O. bonds	• Infrastructure finance districts • C.O.P.'s • G.O. bonds

*LTFP is a Long-Term Financing Plan

** The timing for use of 501c3 bonds for either Model 1 or 2 will depend primarily on the outcome of the long-term financial plan. If sufficient balance sheet strength can be developed in the mid-term, then it could be possible for an entity to issue 501c3 bonds within the mid-term time horizon (4-6 years).

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