United States General Accounting Office

GAO

Report to Congressional Committees

October 2001

NATIONAL PARKS

Significant Progress Made in Preserving the Presidio and Attaining Financial Self-Sufficiency

GAO

Accountability * Integrity * Reliability

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Congressional Committees

The Presidio of San Francisco, situated at the confluence of the Pacific Ocean and the San Francisco Bay, served as an active military post for nearly 220 years. Containing about 1,490 acres and 770 structures, the Presidio now offers its visitors open space for recreational activities and serves as a refuge for several rare and endangered species. Except for its coastal shoreline, the property is surrounded by dense urban residential neighborhoods

In 1972, when the Congress established the Golden Gate National Recreation Area, a small part of the Presidio, then an Army base, was included in the recreation area. When the Department of Defense determined that the Presidio was excess to its needs in 1988, the remainder of the Presidio was designated for inclusion in the recreation area. On October 1, 1994, the Presidio closed; its grounds became part of the recreation area and the National Park Service (Park Service) assumed its management.

Since managing the Presidio's 770 buildings and unique landscape was, by far, the most costly of any other single area it managed, the Park Service suggested that the Congress create an entity to manage the majority of the property. On November 12, 1996, Public Law 104-333 created the Presidio Trust—a wholly owned government corporation—to manage a large part of the Presidio grounds in a manner consistent with sound principles of land use planning and management while maintaining the area's scenic beauty and historic and natural character. The Trust is responsible for leasing, maintaining, rehabilitating, repairing, and improving the property it controls. In addition, the law stipulated that the Trust was to become financially self-sufficient within 15 years of the first meeting of its Board of Directors—that is, by 2013. Also, the law required the Secretary of the Interior, in cooperation with the Trust, to provide public interpretive services, visitor orientation, and educational programs throughout the Presidio. The Park Service carries out these responsibilities and also provides additional public safety services under a reimbursable agreement with the Trust.

The legislation that created the Trust also includes a requirement that we periodically review and report to the Congress on the Trust's activities. Accordingly, we examined (1) the Trust's ongoing efforts to preserve and protect the Presidio and (2) the status of the Trust's efforts to become financially self-sufficient.

Results in Brief

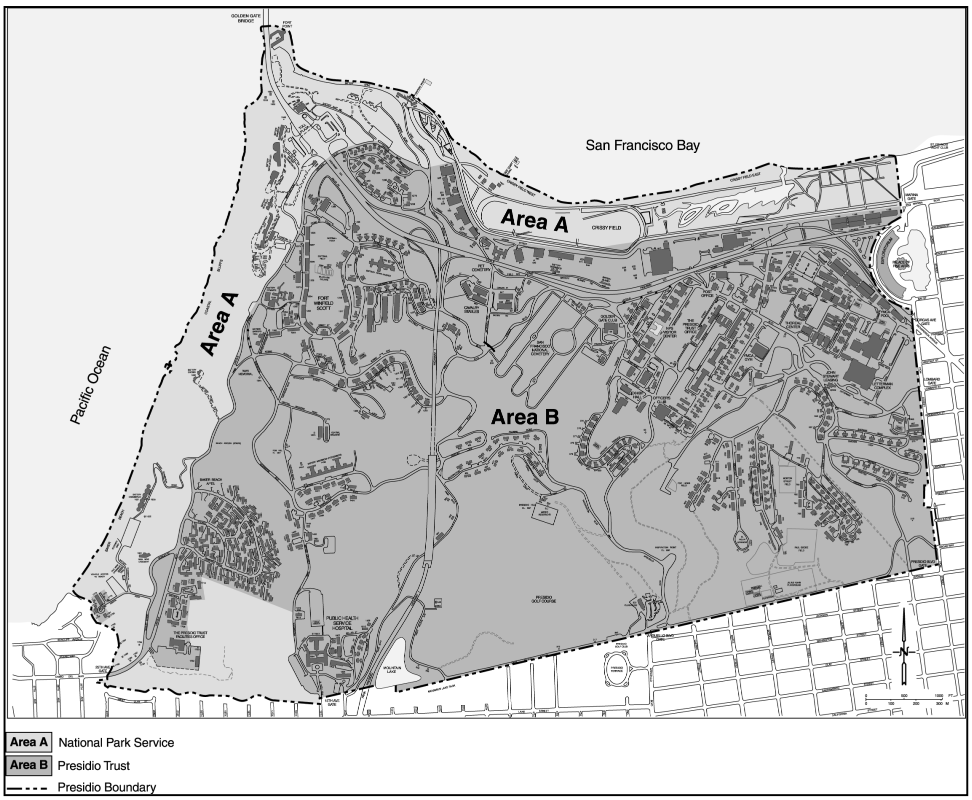
The Trust has made significant progress toward preserving, protecting, and improving the Presidio. It has launched major efforts to repair and upgrade the Presidio's infrastructure and to repair and rehabilitate residential housing and commercial space. To date, the Trust has transformed about half of the former military buildings into useable residential and commercial space. The rehabilitation, repair, and leasing of the remaining 300 residential units and about 2.2 million square feet of undeveloped commercial space is critical to the Trust's efforts to achieve financial self-sufficiency. The Trust has also embarked on several environmental initiatives, including the cleanup of over 2 centuries of military contamination and the restoration of Mountain Lake—one of the few remaining natural lakes within the San Francisco city limits. The Trust is also working with the Park Service to revitalize vegetation throughout the Presidio and to replace trees reaching the end of their life expectancy in the 300-acre forest.

The Trust should meet its legal obligation of financial self-sufficiency by 2013 according to financial projections prepared by the Trust in conjunction with its current planning process. As part of this planning process, the Trust, on July 25, 2001, released for public comment its preferred alternative and five other alternatives it considered for the future development of the Presidio. The Trust is accepting comments on the alternatives until the end of October and expects to release a final development plan for the Presidio in early 2002. The Trust used a financial model to prepare an analysis of future revenues and expenses for each of the alternatives it considered in the planning process. Under every alternative considered, the model projected that the Trust could achieve financial self-sufficiency by 2013. We did not independently verify the calculations of the model because it was, according to the Trust, intended to allow for comparisons under the various alternatives considered and not as a definitive projection of future financial results. However, once a final development plan is selected, we recommend, and the Trust acknowledges, that the model and its results be independently examined in accordance with attestation standards. Key to the financial model for the alternatives considered were the assumptions, such as those for rental rates. Based on our economic review of these assumptions, it appears that they were conservative and provided estimates of future revenues at the lower end of possible outcomes. As such, it is possible that, in the future, the Trust could generate revenues in future years in excess of those needed to operate the Presidio including funds for restoration, preservation, and adequate capital reserves. Furthermore, if the Trust does generate excess revenues in the future, the Congress may, at that time, want to revisit the issue of what to do with excess revenues.

Background

The Trust manages the interior 80 percent of the Presidio, while the Park Service manages the remaining 20 percent, essentially the coastal areas. Figure 1 shows the area managed by the Park Service (Area A) and the area managed by the Trust (Area B).

Figure 1: Area A and Area B Boundaries of the Presidio



Source: The Presidio Trust.

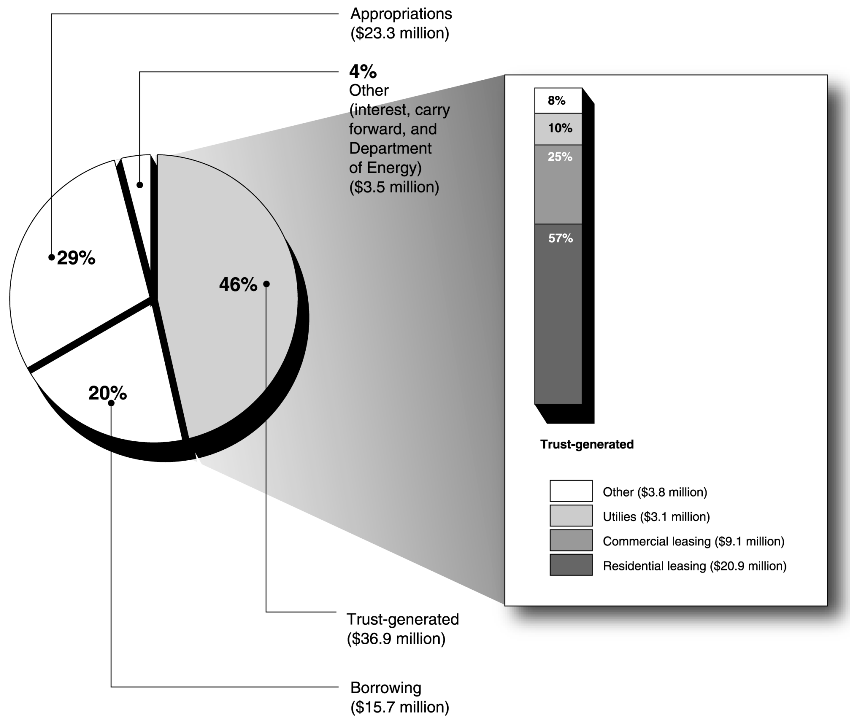
The Trust's area of responsibility includes 729 commercial and residential buildings and structures encompassing almost 6 million square feet of floor space. The Presidio was designated as a National Historic Landmark in 1962. Included in this designation are more than 400 buildings and the Presidio's landscape. As such, any new development or proposed changes to the Presidio's historic buildings and its landscape are guided by rehabilitation standards established by the Secretary of the Interior and the Park Service.

In Public Law 104-333, the Congress gave the Trust wide latitude for managing, preserving, and protecting the Presidio in its effort to achieve financial self-sufficiency by 2013. The Trust has the authority to, among other things, guarantee loans to tenants who finance capital improvements of Presidio buildings, manage building leases, borrow up to $50 million from the U.S. Treasury, and demolish buildings that it deems to be beyond cost-effective rehabilitation.

The Trust is managed by a 7-member Board of Directors. The President of the United States appoints six members and the Secretary of the Interior or her designee is the seventh member. Board members, who are not compensated, are generally appointed to 4-year terms and can be reappointed; however, no Board member may serve more than 8 consecutive years. The Board must hold three meetings per year, two of which must be open to the public. An executive director oversees the daily operations of the Trust and, as of May 30, 2001, managed a 468-member staff. The Trust is organized into an office of general counsel and six divisions, each managed by a deputy director; these managers report directly to the executive director. The Trust can set the compensation and duties of the executive director and staff as it deems appropriate.

For fiscal year 2001, the Trust projects that its revenues will be $79.4 million. Figure 2 shows the Trust's projected revenues from all sources for fiscal year 2001.

Figure 2: Presidio Trust Projected Revenue, Fiscal Year 2001



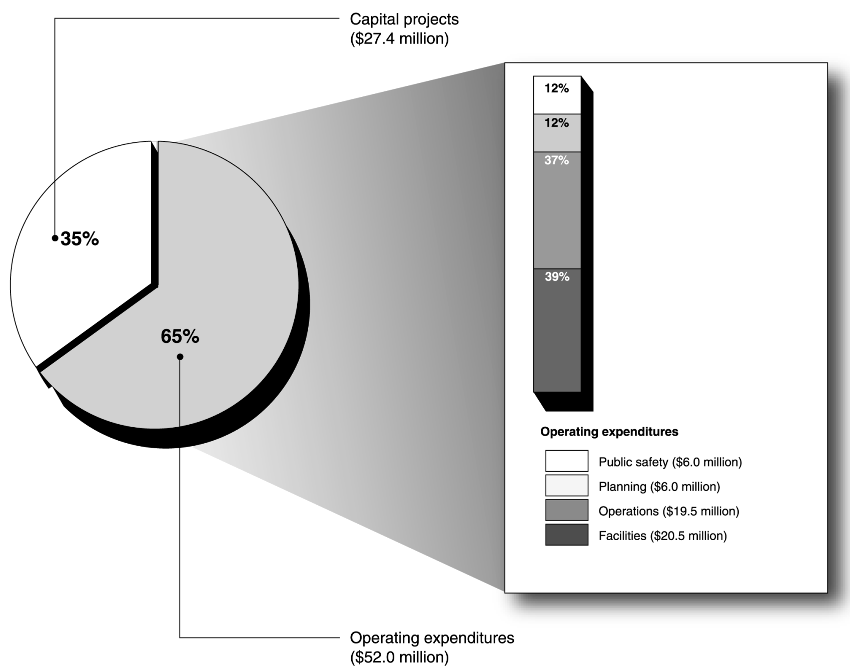
Dollars in millions

Note: Percentages may not total due to rounding.

Source: The Presidio Trust.

The Trust's projected expenditures for fiscal year 2001 are $79.4 million. Figure 3 shows the Trust's projected expenditures for fiscal year 2001, including operations costs such as salaries, day-to-day operations, costs associated with future planning efforts, and public safety.

Figure 3: Presidio Trust Projected Expenditures, Fiscal Year 2001



Dollars in millions

Source: The Presidio Trust.

The Presidio Trust Has Made Significant Progress in Preserving, Protecting, and Improving the Presidio

The Trust has made significant progress in preserving, protecting, and improving the Presidio. Since taking over its portion of the Presidio on July 1, 1998, the Trust has spent more than $38 million to preserve and protect the Presidio by upgrading the infrastructure and repairing and rehabilitating residential housing units and commercial space. In addition, private entities have spent about $40.8 million to repair and rehabilitate commercial space that they then leased from the Trust. The Trust has also assumed responsibility for the environmental cleanup of contamination across the entire Presidio. In conjunction with the Park Service, the Trust has embarked on a plan to improve Mountain Lake’s water quality and shoreline and started work on restoring native vegetation throughout the Presidio. By repairing, rehabilitating, and subsequently leasing residential housing and commercial space, the Trust generated about $13.3 million from residential leases and about $6.3 million from commercial leases in fiscal year 2000. However, as successful as the Trust has been in renovating and leasing both residential and commercial space, it still has some 300 residential housing units to be repaired or rehabilitated and almost 2.2 million square feet of commercial space available for development

Infrastructure Improvements and Building Renovations

From 1997 through March 30, 2001, the Trust spent about $15.4 million to repair and replace the Presidio's infrastructure, upgrading roads and grounds, telecommunications systems, electrical, and water and sewer systems. From April 1, 2001, through the end of fiscal year 2002, the Trust plans to spend an additional $7 million and, with these expenditures, about 80 percent of the electrical, water, sewer, and telecommunications upgrades will be complete. According to the Trust, these improvements have increased health and safety systems, enhanced park resources, and prepared more of the Presidio for residential and commercial tenants.

The major infrastructure upgrades undertaken, and their approximate costs to date, were the following:

- $6.0 million on electrical upgrades by replacing or repairing 12,000 linear feet of existing lines and installing an additional 10,000 linear feet of lines in support of the Trust's residential and commercial leasing programs;
- $5.4 million to upgrade telecommunications capacity including increasing the number of available lines from 8,000 to 21,000 in support of the Trust's residential and commercial leasing programs;
- $2.4 million for sewer system upgrades including replacing about 7,000 linear feet of sewer lines;
- $1.1 million for water system upgrades, including replacing and repairing old water lines that were leaking millions of gallons of water a week; and
- $0.5 million to improve roads, trails, sidewalks, and grounds to enhance resident and visitor facilities.

To preserve the Presidio's many historic buildings and generate the revenues needed to achieve financial self-sufficiency by 2013, the Trust has spent about $23 million to repair and rehabilitate residential housing units and commercial buildings for lease. Figure 4 shows the interior of a residential housing unit before and after rehabilitation and figure 5 shows a commercial building before and after rehabilitation.

Figure 4: Residential Housing Unit Before and After Rehabilitation

Before rehabilitation

After rehabilitation

Source: The Presidio Trust.

Figure 5: Commercial Building Before and After Rehabilitation

Before rehabilitation

After rehabilitation

Source: The Presidio Trust.

The funds to repair and rehabilitate these facilities have come primarily from congressional appropriations and rental revenue. The Presidio has 1,198 housing units contained in 349 buildings, 155 of which are historic. According to the Trust's residential leasing records, as of January 2001, 869 residential housing units contained in 247 buildings were leased. Appendix I provides more specific information about the number and types of buildings the Trust manages. The Trust also manages 306 commercial buildings—225 of which are historic—that contain 3.86 million square feet of space. Currently, the Trust has about 1 million square feet of commercial space rented to private entities. The Trust and the Park Service occupy another 660,000 square feet of commercial space. Private entities have spent about $40.8 million to repair and rehabilitate commercial space that they subsequently leased from the Trust. In these cases, the Trust generally reduces rental rates to recognize the private entity's investment.

Environmental Cleanup and Other Restoration Activities

The Trust has embarked on a number of initiatives to clean up and restore the Presidio's environment. These initiatives include assuming the Army's responsibility for cleaning up the contamination left at the Presidio from over 2 centuries of use as a military post, restoring Mountain Lake, and restoring the Presidio's vegetation and forest.

Environmental Cleanup

In October 1994, when the Army transferred jurisdiction of the Presidio to the Park Service, the Army retained the lead agency responsibility for cleaning up contamination. The Army began cleanup activities primarily in Crissy Field in Area A—an area now managed by the Park Service. In May 1997, the Army announced an updated plan for continued cleanup of the Presidio. The Army's plan however, was criticized by local neighborhood groups, the Sierra Club, and the Trust because its cleanup strategy relied primarily on monitoring contaminated sites and restricting public land use, rather than removing contamination. Also, the Army's cleanup plan was expected to cover a 30-year period.

In May 1998, the Trust presented to the Army its own assessment of the cleanup plan for the Presidio that was designed to address the areas criticized in the Army's plan. The Trust also proposed that the Army delegate its cleanup authority to the Trust to expedite the cleanup activities.

In May 1999, the Army, the Trust, and the Department of the Interior signed a memorandum of agreement transferring cleanup responsibility to the Trust. Under the agreement, the Army will pay the Trust $100 million to clean up both Areas A and B. The Trust is responsible for all currently known contamination; the Army remains responsible for any unknown contamination that may be discovered. The Trust also purchased a $100 million insurance policy for $6.7 million in the event that cleanup costs exceed the $100 million paid by the Army. The Trust plans to complete the environmental cleanup by 2010.

As of March 31, 2001, the Trust had spent about $12 million for cleanup activities. Almost 80 percent of the expenditures to date were for insurance premiums, program management and administration, planning, and oversight. The remaining funds were used for cleanup activities including monitoring groundwater, evaluating landfills, removing contaminated soil, and removing lead pellets.

Mountain Lake Restoration

Mountain Lake is one of the few remaining natural lakes within the city of San Francisco. It is a popular destination for visitors and residents and provides habitat for many species of birds and plants. Over the years, the depth of the 4-acre lake has fallen from 30 feet to less than 10 feet. In addition, the lake's water quality has deteriorated because of sedimentation, runoff, and the byproducts of nearby road construction.

The National Park Service, Golden Gate National Park Association, and the Trust have jointly sponsored a public planning process, including community forums, site research, and other technical analyses, to produce a plan to restore the lake and adjacent shoreline, which encompass a total of 14 acres. A two-phased plan and an environmental assessment were completed and adopted in the spring of 2001.

The goals of the plan are to improve water quality, enhance the habitat, and improve visitor experiences. The first phase will consist of

- dredging and aerating the bottom of the lake;
- removing nonnative trees and vegetation and replacing them with native species; and
- planting native trees and shrubs to buffer the lake from the roadway, improving trails, and constructing overlooks and interpretive exhibits.

The Trust estimates that phase one of the plan will cost $677,000 and should be completed by the fall of 2002. This cost estimate assumes that all removed sediment will be disposed of at a site on the Presidio. If the lake's sediment is found to be contaminated, however, it will require off-site disposal and result in additional costs. The San Francisco International Airport Authority provided $500,000 for phase one as approved mitigation for filling in wetlands for the airport's new terminal.[1]

[1] Mitigation for filling in wetlands is a requirement of regulations and guidelines implementing section 404 of the Clean Water Act. The California Regional Water Quality Control Board approved the airport's plan to fill in 17.1 acres of wetlands and other waters in exchange for $500,000 toward the restoration of Mountain Lake.

The second phase will be initiated within 2 to 5 years after the completion of the first one. This phase consists of removing an additional 4.3 acres of weeds around the shoreline and replanting the area with native plants as well as construction of a bridge. The Trust's preliminary estimate is that phase two will cost from $600,000 to $750,000.

Vegetation and Forest Restoration

The preservation and enhancement of the Presidio's natural resources, including its vegetation, is one of the Trust's goals. The Presidio contains more than 230 native plant species and a 300-acre forest of eucalyptus, Monterey cypress, and Monterey pine trees. Over the years, human activities and the overgrowth of nonnative plants have threatened the Presidio's landscape and native vegetation. Also, many of the trees planted a century ago as part of the Army's beautification project are nearing the end of their natural life span and need restoration.

Working in partnership with the Trust, the Park Service developed the Vegetation Management Plan to preserve and enhance native landscapes and to extend the life of the park's forest over the coming decades. Initially, the Trust and the Park Service will collaborate on a number of pilot projects designed to test and establish effective restoration techniques for future vegetation management projects. Over the next 5 years, the Trust expects to spend $9 million on pilot projects aimed at restoring and nurturing the Presidio's vegetation and forest.

Leasing Programs Have Been Successful

The Trust has made substantial progress in repairing, rehabilitating, and leasing buildings since taking over responsibility for its portion of the Presidio in July 1998. Revenue from residential and commercial leases is the Trust's primary source of revenue, and these leases will play a more important role as the Trust's federal appropriation declines and then ends in fiscal year 2012.

In fiscal year 2000, residential leases generated $13.3 million in revenue. Currently, more than 52 percent of the occupied residential units are leased at market rental rates averaging about $2,910 per month. The remaining occupied units are rented under several discounted rental programs whereby tenants, such as public safety personnel, Presidio employees, and students, pay less than market rental rates. Monthly rental rates under these programs average about $1,375. By the end of fiscal year 2001, the Trust expects to have available for rent an additional 140 residential housing units. The Trust anticipates that it will generate about $21 million in revenue in fiscal year 2001 from residential housing.

In fiscal year 2000, commercial leases generated $6.3 million in revenue. Overall, leases for commercial space average less than $10 per square foot, with nearly 79 percent of the total square footage leased averaging slightly more than $3 per square foot. Many of these leases are to tenants who financed the cost of restoring buildings they occupy in exchange for rental offsets and tax credits allowed for the restoration of historic buildings. Other leases are with community organizations that pay only their pro rata share of common area, infrastructure, and security costs. In fiscal year 2001, the Trust is offering an additional 227,000 square feet for lease or rehabilitation; this is expected to raise fiscal year 2001 commercial lease revenues to about $9 million. Appendix II provides information on the Trust's residential and commercial leasing programs.

While the Trust has been successful in leasing residential and commercial space, it still has a considerable amount available for rehabilitation and leasing. As of January 2001, the Trust had 329 housing units that were either vacant or awaiting rehabilitation. Similarly, the Trust has 2.2 million square feet of commercial space that could be made available once a decision is made on the use of the space and it is repaired or rehabilitated. Of the 2.2 million square feet, 900,000 square feet will be used for a digital arts center at the Letterman Hospital site. The development agreement for this project was signed on August 14, 2001. When this project is completed, the Trust expects to receive about $5.8 million annually in rent plus an annual service district charge.

Implementation Plan and Financial Projections Indicate That the Trust Should Become Financially Self-Sufficient by 2013

In July 2000, the Trust began a planning process to create a plan for the future development of its portion of the Presidio. As part of this process, the Trust considered a number of alternatives for future development. The Trust used a financial model to prepare a financial analysis for each of the alternatives it considered and, under every alternative, the model projected that the Trust could become financially self-sufficient by 2013. The Trust issued its Draft Implementation Plan, which contained its proposed action called the "Draft Plan Alternative," as well as a draft environmental impact statement on July 25, 2001. After a public comment period, the Trust expects to issue a final plan and final environmental impact statement by early 2002. Key to the financial model were the assumptions the Trust used which appear to be conservative and to provide estimates of future revenues at the lower end of potential estimates.[2] After choosing the final development plan, the Trust should refine the model and prepare a new financial forecast of operating results under that plan because projections used in the planning process were designed only as tools to test the comparative economic implications of various alternatives.

Presidio Trust Implementation Plan Will Guide Future Development

Since assuming responsibility for its portion of the Presidio, the Trust has managed the Presidio using the Park Service's 1994 General Management Plan Amendment. In July 2000, the Trust began to update this plan. The new planning process, called the Presidio Trust Implementation Plan (Implementation Plan), was needed, according to the Trust, because some of the assumptions the Park Service had based its 1994 General Management Plan Amendment on had changed significantly since it was adopted. Specifically:

- The Park Service's 1994 General Management Plan Amendment assumed that annual appropriations in the range of $16 million to $25 million would be received. However, Public Law 104-333, which created the Trust, mandated that the Trust become financially self-sufficient by 2013.
- Even after the Presidio closed, the 6th U.S. Army had been expected to occupy up to 30 percent of the Presidio's buildings; however, it has vacated the Presidio.
- The University of California at San Francisco had planned to locate its research facilities at the Letterman Hospital, but did not do so.

The Implementation Plan process began in July 2000 with a 6-month "scoping" period and information-gathering process through workshops in which the public helped define the range of issues and topics to be included in the Implementation Plan. In mid-November 2000, the Trust published its Conceptual Alternatives Workbook, which contained five alternatives for the Presidio's future development. Public comments were solicited on the alternatives until January 16, 2001.

[2] We have not examined the financial model in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, do not express an opinion or any other form of assurance on the forecasts or assumptions. Furthermore, there will usually be differences between the model and actual results, because events and circumstances frequently do not occur as expected, and those differences could be material.

On July 25, 2001, the Trust released the Presidio Trust Draft Implementation Plan and draft environmental impact statement, which described and analyzed six alternatives for future development of the Presidio. Two of the alternatives have, thus far, received the most attention from the public. One, referred to as the “General Management Plan Amendment 2000 alternative,” would implement the Park Service’s 1994 General Management Plan Amendment, assuming the year 2000 conditions. The Trust stated that it modified this alternative from the Conceptual Alternatives Workbook because many neighborhood and environmental groups had commented that they preferred an alternative that was patterned after the Park Service’s 1994 General Management Plan Amendment plan but modified to make it financially feasible. The Trust developed another alternative, also in response to public comments, entitled the “Draft Plan Alternative,” which is its proposed action for future development of the Trust’s portion of the Presidio. The Trust stated that this alternative is the proposed action because it is patterned after the General Management Plan Amendment 2000 alternative but includes modifications to ensure its financial viability and to combine a number of concepts proposed in the Conceptual Alternatives Workbook into a single alternative. These concepts include expansion of open space, no reduction in housing units, and a variety of cultural and educational programs for visitors. Appendix III contains a summary of the alternatives the Trust considered. The public has until October 25, 2001, to provide comments on the Draft Plan Alternative and draft environmental impact statement. The Trust envisions concluding the planning process with the publication of a final plan and final environmental impact statement in early 2002.

The Trust’s Draft Plan Alternative contains many of the features of the General Management Plan Amendment 2000 alternative, but there are several noteworthy differences between the two. For example, total development at the Presidio under Draft Plan Alternative is 5.6 million square feet, or about 6 percent less than current levels, rather than just over 5 million square feet discussed in the General Management Plan Amendment 2000 alternative. Furthermore, the Draft Plan Alternative permits 50,000 square feet less in building demolition than the General Management Plan Amendment 2000 alternative and replacement buildings under the Draft Plan Alternative could increase by about 540,000 square feet over the General Management Plan Amendment 2000 alternative. Finally, the Draft Plan Alternative calls for 880 more residential housing units than the General Management Plan Amendment 2000 alternative—more than doubling the projected number of residents at the Presidio. Appendix IV contains a comparison of the land use patterns envisioned by the alternatives.

The Draft Plan Alternative assumes expenditures of $10 million annually for Trust programs rather than the $2 million annually provided for in the General Management Plan Amendment 2000 alternative. The difference is due, in part, to the Trust providing programs rather than only the tenants as the General Management Plan Amendment 2000 alternative assumed. According to the Trust, a wide variety of program possibilities would be available including interpretive programs for visitors as well as museums, exhibitions, and community programs. Also, the projected number of annual visitors under the Draft Plan Alternative is 60 percent higher than the projection in the General Management Plan Amendment 2000 alternative. Finally, total capital construction costs under the Draft Plan Alternative would be $61 million higher than under the General Management Plan Amendment 2000 alternative. Appendix V contains a comparison of the capital costs among the alternatives.

The Trust's analysis of the public comments it received before releasing the Draft Plan Alternative, indicated that many of those commenting noted concerns with the proposed plans compatibility with the Park Service's 1994 General Management Plan Amendment. Public reaction when the Draft Plan Alternative was released indicated that many believed that the Draft Plan Alternative contained too much development and that the Trust should not have abandoned the Park Service's 1994 General Management Plan Amendment.

Financial Self-Sufficiency Expected

As part of the planning process, the Trust used a financial model to prepare a financial projection for each alternative. According to the Trust, the financial model was designed as a planning tool to test the comparative economic implications of the alternatives and not as definitive projections of future financial conditions. Specifically, the financial model was designed to (1) evaluate the short-term financial self-sufficiency of each alternative; (2) estimate the time period needed for each alternative to reach long-term financial sustainability, including generating sufficient revenues to meet long-term capital needs and replacement reserves; and (3) compare the relative financial performance of each alternative against the others. The financial model projected that the Trust could become financially self-sufficient by 2013 under every alternative.

In developing the financial model, the Trust relied on historical data from a number of sources, such as the San Francisco area's real estate markets for data on fair market rental and vacancy rates and national studies for information on capital costs for rehabilitation and new construction. In addition, the Trust made many assumptions in order to project its financial analyses into the future. Some of the key variables included land use, annual program expenditures, and the timing of demolition and rehabilitation of existing buildings.

According to our economic analysis of the financial model, the Trust's assumptions appear to be conservative because they tended to minimize projected revenues. For example, even though the market rental rate in calendar year 2000 for Class B office space in San Francisco was about $60 per square foot, the Trust used a more conservative rental rate of $29 per square foot. This rate was based on the average market rate over the past 7 years.

In developing its financial model, the Trust stated that the model was not designed to be a budgetary or accounting tool and the results should not be interpreted as being what will happen, but rather what could happen given certain assumptions. When the Trust finalizes its Presidio Trust Implementation Plan, it needs to refine the financial model to assure itself that the model's results are based on the latest and best information and assumptions.

Also, the model meets the definition of a financial forecast as defined by the American Institute of Certified Public Accountants Statements on Standards for Attestation Engagements which provide a mechanism by which financial forecasts that are expected to be used by a third party can be independently examined. Because it is likely that the public, the Congress, and the Trust will rely on the new financial forecast, at least in part, to judge the Trust's likelihood of becoming financially self-sufficient by 2013, we believe that the American Institute of Certified Public Accountants guidelines should be applied and the Trust should have the financial model independently examined. We brought this issue to the attention of Trust officials, who stated they were not aware of such guidance but thought that having a new financial forecast independently examined was a good idea.

Depending on future rental revenues and how the Trust proceeds with development of the Presidio, it is possible that at some point the Trust may generate revenues in excess of its costs. The Trust acknowledges that, at some point in the future, excess revenues could be generated at which point it could decide to reduce rents, provide subsidies, or scale back plans for building space and capital projects. Public Law 104-333 allows the Trust to retain all proceeds and other revenues it receives.

Conclusions

When passing the law that brought the Trust into being, the Congress gave the Trust wide latitude in determining how it would manage and operate the Presidio. The Trust has made notable progress and now stands ready to define the future development and operation of the Presidio as a national park. While the Trust's financial analysis indicates that the Trust should achieve financial self-sufficiency by 2013, it is only a predictor of what could occur based on several assumptions. The Trust should consider refining its financial forecast once its development plan is finalized. Furthermore, if the Trust generates excess revenues in the future, after achieving financial self-sufficiency and funding capital projects and reserves, the Congress may, at that time, want to revisit the issue of what to do with excess revenues.

Recommendation to the Presidio Trust

Given the complexity of the financial model and its importance in the decision-making process and the fact that a refined model could serve as the standard measure of the Trust's progress toward self-sufficiency, we recommend that the Chairman, Presidio Trust Board of Directors, obtain an independent examination of the financial model as defined by the American Institute of Certified Public Accountants Statements on Standards for Attestation Engagements. A certified public accountant's report would express an opinion on whether the underlying assumptions provide a reasonable basis for management's projection of financial self-sufficiency.

Agency Comments and Our Evaluation

The Presidio Trust provided oral comments that generally agreed with the report and our recommendation that it have its financial model independently examined when its development plan is finalized. The Presidio Trust also provided a number of technical comments and clarifications, which we have addressed, as appropriate, in the body of the report.

Scope and Methodology

We obtained information from the Trust on its activities, reviewed relevant program documents and related materials, and met with Trust officials responsible for major activities, such as facility improvements, residential and commercial leasing, and financial management. We also reviewed the financial model used by the Trust as part of its planning process and discussed the model with Trust officials and officials from the firm that developed the model. We did not independently verify the reliability of the financial data provided nor did we trace the data to the systems from which they came. Because the Trust manages the Presidio in conjunction with the Park Service, we also met with Park Service officials to obtain their views on the Trust's management of the Presidio and its planning process.

We performed our work at the Trust's headquarters in San Francisco from January 2001 through August 2001 in accordance with generally accepted government auditing standards.

We are sending copies of this report to appropriate congressional committees, the Chairman, Board of Directors, Presidio Trust; the Secretary of the Interior; the Director, National Park Service; the Secretary of Defense; the Director, Office of Management and Budget; and other interested parties. We will also make copies available to others on request.

If you or your staff have any questions regarding this report, please call me or Ed Zadjura on (202) 512-3841. Key contributors to this report are listed in appendix VI.

Barry T. Hill
Director, Natural Resources
and Environment

List of Committees

The Honorable Robert C. Byrd
Chairman
The Honorable Conrad Burns
Ranking Minority Member
Subcommittee on Interior
Committee on Appropriations
United States Senate

The Honorable Daniel K. Akaka
Chairman
The Honorable Craig Thomas
Ranking Minority Member
Subcommittee on National Parks
Committee on Energy and Natural Resources
United States Senate

The Honorable Joe Skeen
Chairman
The Honorable Norman D. Dicks
Ranking Minority Member
Subcommittee on Interior
Committee on Appropriations
House of Representatives

The Honorable Joel Hefley
Chairman
The Honorable Donna M. Christensen
Ranking Minority Member
Subcommittee on National Parks, Recreation
and Public Lands
Committee on Resources
House of Representatives

Appendix I: Status of Presidio Trust Buildings and Structures

Table 1: Commercial and Residential Buildings, as of January 2001

Building type	Number	Square feet (mil)	Historic buildings	Historic square feet (mil)	Buildings leased or in use	Square feet leased or in use (mil)	Percent of square feet in use
Commercial	207	3.76	173	2.41	121	1.68	44.7
Infrastructure	99	0.10	52	0.09	24	0.03	28.8
Residential housing	349	2.02	155	0.81	247	1.43	70.7
Residential garages/carports	74	0.08	48	0.04	0	0	0
Total	**729**	**5.96**	**428**	**3.36**	**392**	**3.14**	**52.6**

Source: GAO's analysis of commercial and residential building data provided by the Presidio Trust.

Table 2: Commercial and Infrastructure Building Space, as of January 2001

Building status	Number of buildings	Square feet (mil)	Percent of total square feet
Leased to tenants[a]	75	1.05	27.2
Occupied by Trust/National Park Service	70	0.66	17.1
Ready for lease or rehabilitation	16	0.23	5.9
Letterman Digital Center	0	0.90	23.3
Awaiting development plans	145	1.03	26.6
Total	**306**	**3.86**	**100.0**

Note: Percentages may not total due to rounding.

[a]Square feet equals total building space, although not all the square footage is leased.

Source: GAO's analysis of commercial and residential building data provided by the Presidio Trust.

The Presidio has 729 buildings and structures encompassing nearly 6 million square feet under management of the Presidio Trust. Over half (428) are historic buildings that contribute to the Presidio's designation as a National Historic Landmark District. Ninety-nine buildings (100,000 sq. ft.) support infrastructure such as sewer, electrical and water pump stations or maintenance sheds. Over 70 percent of residential square-footage (1.4 million sq. ft.) is occupied, while less than half of the commercial space (1.7 million sq. ft.) is leased or in use.

Appendix II: Residential and Commercial Leasing

Table 3: Status of Residential Housing Units, as of January 2001

Leasing status	Number	Percentage of total units	Average monthly rents
Units rented at/near market rates	470	39.2	$2,911
Units rented at discounted rates[a]	399	33.3	1,376
Vacant units	39	3.3	0
Units in or awaiting rehabilitation	290	24.2	0
Total[b]	**1,198**	**100.0**	**$2,206**

[a]Discount rent programs for tenants who qualify under program guidelines.

[b]Excludes single room occupancy, bachelor officers' quarters, and dorm rooms.

Source: GAO's analysis of residential leasing data provided by the Presidio Trust.

Table 4: Status of Commercial Building Leases, as of January 2001

Commercial building status	Number of building leases	Number of buildings	Square feet leased	Average annual rent rate per square feet [a]
Leases under $10 per sq. ft.	31	48	709,640	$3.19
Leases between $10 - $20	6	7	56,886	15.78
Leases above $20	16	10	135,798	40.36
Total	**53**	**65**	**902,324**	**$9.58**

Notes: Excludes the golf course lease, which pays a percentage of gross receipts and 10 buildings/structures associated with the golf course. Projected average rent rates are included for retail/service leases, which pay a percentage of gross receipts.

[a]Calculated annual rent rates include a fee the Trust charges to cover security, common areas, and infrastructure costs.

Source: GAO's analysis of commercial leasing data provided by the Presidio Trust.

Currently, the Presidio has 1,198 residential housing units, of which 73 percent (869 units) were leased or occupied as of January 2001. The remaining 329 units (27 percent) are either vacant or awaiting rehabilitation. A review of occupied units shows 39 percent (470 units) leased at market rental rates while 33 percent (399 units) have leases below market rates. Overall lease rates for commercial space averages less than $10 per square feet. The majority of total commercial square-feet leased averages just over $3 per square foot.

Appendix III: General Overview of Planning Alternatives Considered by the Presidio Trust (July 25, 2001)

Draft Plan	Under this alternative, tenants and residents would work together to make the Presidio a center for education, communication, and exchange. Open space would be increased primarily by removing non-historic housing in the southern portion of the park. Replacement housing would come primarily from the rehabilitation and reuse of buildings. Cultural and natural resources would be protected and enhanced.
General Management Plan Amendment (GMPA) 2000	This alternative would implement the General Management plan developed by the Park Service in 1994 assuming year 2000 conditions. Tenants and residents would work together to create a global center dedicated to addressing the world's critical environmental, social, and cultural challenges. Buildings would be removed to increase open space and/or enhance recreational, cultural, and natural resources.
Resource Consolidation	In this alternative, more open space would be created in the southern part of the park; development would be concentrated in the northern part of the Presidio. Overall, building square footage would be reduced and open space and natural resource enhancements would be maximized.
Sustainable Community	Under this alternative, the Presidio would become a sustainable live/work community, and a model of environmental sustainability. Emphasis would be placed on creating a community that offered innovative approaches on environmental sustainability. Open space would be enhanced and some non-historic buildings would be removed.
Cultural Destination	Under this alternative, the Presidio would become a national and international cultural destination park, a portal for visitors to the American West and Pacific, and a place of international distinction for its programs in research, education and communication. Open space would be expanded and a substantial number of non-historic buildings would be removed in the southern part of the park; housing would be added in the northern part of the park.
Minimum Management	Under this alternative, the Presidio would be minimally managed to fulfill the Presidio Trust's obligations to protect the Presidio's resources. There would be no significant park enhancements and no physical change beyond those currently underway. There would be no new construction and building removal.

Appendix IV: Buildings and Open Space Comparison of Presidio Trust Planning Alternatives

	Draft plan	GMPA 2000	Difference between Draft & GMPA	Other alternative plans: Resource consolidation	Sustainable community	Cultural destination	Minimum management
Buildings (thousands of sq. ft.)							
Commercial buildings	3,660	3,690	(30)	3,980	3,770	4,070	3,530
Residential buildings	1,940	1,320	620	1,310	1,910	1,890	2,430
Subtotal	**5,600**	**5,010**	**590**	**5,290**	**5,680**	**5,960**	**5,960**
Planned demolition	1,070	1,120	(50)	1,910	890	1,370	0
New construction	710	170	540	1,240	620	1,370	0
Net reduction in building space	**(360)**	**(950)**	**(590)**	**(670)**	**(270)**	**0**	**0**
Open space (acres)							
Existing	696	696		696	696	696	696
Proposed	793	794		838	772	807	702
Net change (increase)	**97**	**98**	**(1)**	**142**	**76**	**111**	**6**
Residential housing (units)							
Existing[a]	1,650	1,650		1,660	1,650	1,650	1,650
Proposed	1,650	770		910	1,430	1,700	1,650
Net change	**0**	**(880)**	**(880)**	**(740)**	**(220)**	**50**	**0**

[a]Existing housing units include former military bachelors' quarters and barracks not in use.

Source: Presidio Trust Draft Environmental Impact Statement, July 2001.

Appendix V: Capital Spending Comparison of Presidio Trust Planning Alternatives

Capital spending (Dollars in millions)	Draft plan	GMPA 2000	Difference between draft & GMPA	Other alternative plans: Resource consolidation	Sustainable community	Cultural destination	Minimum management
Residential housing	$148	$33	$115	$38	$80	$88	$57
Commercial buildings	191	144	47	156	180	194	230
Lodging/conference buildings	21	122	(101)	45	42	41	4
Miscellaneous[a]	163	163	0	187	160	175	131
Nonrevenue space	23	23	0	23	23	23	23
Total	**$546**	**$485**	**$61**	**$449**	**$484**	**$521**	**$445**

Note: Numbers may not total due to rounding.

[a]Parkwide capital costs, demolition costs, and program capital costs.

Source: Presidio Trust Environmental Impact Statement, July 2001.

Appendix VI: GAO Contact and Staff Acknowledgments

GAO Contact

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