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DRAFT REPORT EXECUTIVE SUMMARY



Study of Alternatives to Housing For the Funding of Brooklyn Bridge Park Operations

Presented by:
BAE Urban Economics

Presented to:
**Brooklyn Bridge Park
Committee on Alternatives to Housing (CAH)**

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Executive Summary

Overview

This report has been prepared for the Brooklyn Bridge Park Corporation (BBP), a City of New York-controlled non-profit corporation responsible for planning, construction, and operation of the Brooklyn Bridge Park (Park), to summarize an investigation of alternatives to housing for the funding of Brooklyn Bridge Park operations.

One of the fundamental principles of Brooklyn Bridge Park since its inception has been the requirement that the Park's operations and maintenance budget would be funded through ground lease and related revenues generated from development of a portion of the project's land in order to make the Park financially sustainable. This principle was memorialized in the 2002 Memorandum of Understanding (MOU) between New York State and New York City that led to the creation of the Park. It was then further refined in the Park's General Project Plan (GPP) of 2005, which set forth a specific development program that would generate the required funds, while minimizing the footprint of new development and maximizing public accessibility to the Park's recreational amenities. The development program in the GPP includes residential development, development of a hotel, a commercial development, and to a lesser extent, revenues from concessions and events. The principle of financial self-sufficiency for operations was affirmed in the 2010 transfer of control of the Park's development and operation from the State to the City. As part of this transfer, the City and local elected officials agreed to establish a committee to investigate the viability of alternative revenue sources to those listed in the GPP.

In the Fall of 2010, the BBP Board of Directors of BBP voted to establish the Committee on Alternatives to Housing (CAH) to investigate revenue generating alternatives. The CAH engaged BAE Urban Economics (BAE) to assist in this investigation. The process has included extensive public outreach to solicit ideas for potential alternatives (including holding two listening sessions and accepting written testimony submitted to an email address established for this purpose), as well as the investigation into best practices for revenue generation at a number of major new U.S. and international urban parks.

The Purpose of the Report

While the creation of the Park has been accompanied by ongoing public discussion on alternatives for design, uses, financing, operations, or other aspects of the Park, the purpose of this report is not to address the full range of such ideas. Rather, its purpose is to address two specific questions. The first question this report addresses is how much revenue can be generated from an identified set of alternative sources to replace ground lease payments and Payments in Lieu of Taxes (PILOT) receipts from future residential development at the two sites at Pier 6 and one site at John Street. The second question this report addresses is how these alternative funding sources compare in terms of timing, risk, and other relevant considerations to the sources in the Parks' adopted funding model for operations.

The Process for Identifying Alternatives

Two public hearings were conducted and an email address was established for the public to submit alternatives that identified 36 ideas. This was complemented by consultant research and work with the CAH to identify additional alternatives. The resulting list was used by the CAH to identify for its consideration a smaller list of alternative uses and activities believed to have the greatest revenue generation potential, while being consistent with the threshold parameters established at the time of the CAH's creation.

Selection of the Alternatives for Study

The March 8, 2010 Memorandum of Understanding that created the CAH provided for two "threshold" parameters that all potential alternatives must meet before they can be considered:

- The first threshold parameter is that the CAH will not deem a source to be an alternative source unless, after due analysis and diligence, it concludes that such a source is not, in any way, displacing revenue to which the City is otherwise entitled.
- The second threshold parameter is that the timing and level of risk associated with an alternative source must be consistent with the projected timing of and risk associated with the revenue to be generated by the John Street and Pier 6 sites.

Three potential alternative revenue sources were eliminated by the CAH from further consideration based on these threshold parameters:

- Direct City Funding (General Fund or Other Funds);
- Operating Budget Reductions; and
- Tax Increment Financing (TIF), Park Increment ReCapture (PIRC), or other similar structures.

Nine alternative revenue sources that were determined by the CAH to satisfy the threshold parameters and that were selected for detailed investigation include:

- A Business Improvement District (BID) or Park Improvement District (PID) that would generate revenues from assessment on property owners in an area adjacent to the Park.
- Fee-based recreational facilities that would encompass existing outdoor recreational facilities as well as potential new indoor recreational facilities.
- Event facilities, including special events that would include outdoor events as well as an indoor rental events facility, including a banquet hall.
- Concessions of all types, including food and fine dining, that would provide for additional concession facilities beyond those in the approved Park plan.
- Commercial real estate development of retail and/or office buildings within the park.
- Advertising and sponsorships that would include commercial funding of a range of activities and facilities.

- Fundraising/philanthropy to generate grants and other funding for improvements or operations.
- Revenue from the nearby Watchtower-owned properties to capture value associated with potential sale and/or redevelopment of Brooklyn properties owned by this organization.
- Increased parking revenues, through the provision of additional parking, including parking structures, or the imposition of higher parking charges.

The CAH also developed a set of “evaluative” parameters to allow quantitative and qualitative comparisons between different alternatives. The evaluative parameters for each alternative address: whether it is within the control of the BBP; City or State actions are needed to implement it; additional upfront investment by BBP is needed; substantial changes that would be made to the design and construction of Park improvements; the potential appropriateness of any new buildings as compared to the Pier 6 and John Street sites; and its addition to the diversity of funding for the operating model and the Park’s overall financial viability. The section in the full report for each alternative identifies for that alternative how it differs from the “baseline” associated with the Pier 6 and John Street sites based on the evaluative parameters.

Key Findings – Potential Annual Revenue Generation from Alternatives

The research and analysis indicates that the following annual and one-time revenues may be generated from the nine alternatives selected by the CAH for analysis:

Summary of Potential BBP Revenues from Selected Alternative Sources

Alternative	Potential Revenues		Key Considerations
Park Improvement District (PID)	\$1,000,000	- \$4,000,000	Requires majority consent of affected property owners
Fee-Based Recreational Facilities	\$603,000	- \$603,000	
Events	\$288,000	- \$288,000	
Concessions	\$40,000	- \$365,000	Dependent on extent of retail elsewhere in Park
Commercial Real Estate	\$257,000	- \$257,000	Assumes ICAP exemptions (a)
Sponsorships	TBD	- TBD	Naming rights could reduce maritime-related costs (b)
Fundraising	\$0	- \$1,000,000	
Watchtower Properties	\$0	- \$0	Potential one-time payment to redesign Pier 1 hotel (c)
Parking Revenues	<u>\$233,000</u>	- <u>\$438,000</u>	Assumes ICAP exemptions (a)
Total Annual Revenues	<u>\$2,421,000</u>	<u>\$6,951,000</u>	

TBD = To Be Determined.

(a) ICAP is a commercial property tax exemption program expected to apply to this development, as described in the report.

(b) Naming rights proceeds could allow already committed City and State funds to be shifted to maritime maintenance.

(c) Redesign of the Pier 1 hotel could generate \$4 to \$5 million in one-time revenues, as explained in the report.

See report for specific details of alternatives, limiting conditions.

Source: BAE, 2011.

Summary Descriptions of the Alternatives

The following paragraphs provide a summary of what each alternative would involve and relevant factors that affects its implementation and potential revenue. Alternatives that involve new buildings generally describe the development program and operation, but no site planning or design has been conducted. A detailed discussion of each alternative is included in the full report.

Park Improvement District (PID)

A Park Improvement District (PID) would use the existing Business Improvement District (BID) ordinance to create a district that would be approximately ¼ mile from the Park's boundaries, with all residential and commercial properties in the PID paying an assessment. Creation of a BID requires the consent of a majority of property owners and ultimately passage of legislation by the City Council. Unlike a traditional BID, the PID would not have its own staff and would not provide direct services (cleaning, security, etc.) to property owners. Rather it would provide an indirect service and benefit by ensuring high quality Park maintenance. The academic literature indicates that the Park could create an average increase of five percent or more in property values.

The PID assessment would be calculated based on a fixed millage (assessment) rate applied to the assessed value for each property as established by the City's Department of Finance. The variation in potential revenues results from the application of different potential millage rates in a financial model prepared for this report; depending on the rate, the annual PID cost for a Class 1 residence with \$750,000 market value could range from \$111 to \$442. Approximately one-third of the assessed value in the potential PID is already in another BID; if these properties are excluded from the PID the indicated revenues would be considerably less. This alternative presents less market risk and enhances the diversity of funding, however, there is a yet to be determined risk of whether a PID would obtain majority support from the property owners to be assessed.

Fee-Based Recreational Facilities

Fee-based recreational facilities includes two potential alternative sources: (1) fees for use of planned Park fields and courts, ranging from \$25 per hour for basketball courts, to \$50 per hour for multi-use fields, to \$100 per hour for an in-line roller hockey rink; and (2) ground lease revenues from the development of a new 200,000 square foot year-around indoor recreational facility (which would have to displace a planned park improvement). Fees for use of fields and courts would generate modest revenues. The implementation of fees for use of Park fields and courts would have little risk and enhance the diversity of funding sources with modest upfront costs.

Financial analysis indicates that a new indoor recreational facility would not be feasible, even with market rental rates given the high capital costs associated with the development of the facility. Most existing large indoor recreational facilities elsewhere in the City have used rehabilitated existing structures, resulting in much lower costs. It is possible that a non-profit recreation provider might conduct a capital campaign to build such a facility, however in this situation the Park would be unlikely to receive much in the way of ground lease payments. A new indoor recreation facility would require a redesign of a portion of the Park.

Event Facilities

As with recreational facilities, this alternative includes two alternative sources: (1) increased efforts to generate revenues from additional rental of planned Park sites, with some potential modifications, comparable to other urban parks that generate up to 15 percent or more of earned

revenues from this source; and (2) ground lease revenues from the development of a new 25,000 square foot events facility built within the Park. Increased rental of park sites could generate modest revenues. Similar to fees for recreational facilities, increased event rentals would have little risk and enhance the diversity of funding sources with modest upfront costs.

Financial analysis indicates that a new indoor events facility would not be feasible given the high capital costs associated with the development of the facility. While the operator of such a facility would be expected to generate profits from events, banquets, and other activities, the profits would be insufficient to repay the development costs of the facility. This means a new indoor events facility would not generate ground lease revenues. A key consideration in the cost calculation is the need to provide parking, which is a requirement due to the Park's site in Brooklyn and the lack of adjacent transit. A new events facility would require a redesign of a portion of the Park.

Concessions (All Types, Including Food and Fine Dining)

This alternative envisions an increase in the number of concessions facilities in the Park, to provide a wider range of dining choices, including fine dining and recreational services. The current Park Plan includes a full service restaurant at Pier 6, an outdoor wine bar at Pier 1, and four food kiosks and two food carts at various locations in the Park, as well as a bike rental concession. No market study has been conducted to determine the extent of food-related uses that could be supported in the Park, and doing so is beyond the scope of this report. Extensive amounts of planned new dining and retail located are located within and adjacent to the Park (including at least two large sit-down restaurants within the 75,000 square feet of retail at the One Brooklyn Bridge Park building, retail in one of the other Pier 6 residential sites, a restaurant in the new Pier 1 hotel, and 75,000 square feet of retail in the Empire Stores location), along with other dining and retail in the adjacent DUMBO neighborhood, and potentially another 80,000 square feet or more of retail in one of the other alternative sources. This new retail, if built, may limit the potential market support for additional concessions in the Park.

There are few, if any, comparable waterfront settings in Brooklyn parks, therefore a survey was conducted of waterfront park and other specialty park concessions in Manhattan. The survey suggests that an additional bike and recreational equipment rental concession has potential, and the Park has just released a Request for Proposals for an operator. Interviews with local retail experts indicate that they do not consider the Park a destination environment for dining and retail because of limited transit access. Based on this information, the maximum potential for additional concessions within the Park appears likely to be no more than one additional full-service restaurant, one snack-bar and/or seasonal type operations, one to two kiosks and carts, and one recreational equipment rental. Depending upon the extent of competing retail, there may not be demand for even this amount. The cost to concessioners of new buildings will impact potential payments to the Park. The risk profile of concessions is comparable to the baseline model, and the impact on Park design would vary depending on sites and specific designs.

Commercial Real Estate Development

This alternative envisions development of mixed-use retail and office buildings, either on the Pier 6 site or elsewhere in the Park. Buildings within the Brooklyn Heights view corridor would be limited to 45 feet in height. Based on interviews with market participants, the Park has a limited potential to become a retail destination and would support a limited amount of this use. Similarly, office space would need to be smaller in scale and targeted to local professional and creative services firm that do not need convenient transit access. Commercial development would need to provide parking to visitors and tenants to be viable.

Based on current market conditions, financial analysis indicates that the development of office space for this tenant pool would not be feasible. Retail, however is feasible and could support ground rent payments to the Park. The market risk for this use could be somewhat greater than the baseline model, but it could provide some diversity in funding streams. There could be a need for redesign of portions of the Park, depending upon the final locations for this use.

Sponsorships

While corporate and individual sponsorships are an increasingly important source of support for parks, these sources are rarely available to fund maintenance. Sponsorship revenues are typically associated with funding the costs of programs, events, or other activities. Naming rights for new facilities are also an important source of revenues, however this typically represents a source of capital funding, rather than funding for operations. It is possible that the sale of naming rights for Park improvements such as the piers could generate revenues that would allow already committed City and State funding to be reallocated to the Park's maritime maintenance reserve fund, lowering future annual maintenance costs, however a comprehensive sponsorship feasibility study would be needed to fully evaluate its potential. There could be a need for redesign of some sites to enhance their potential for sponsorships.

Fundraising/Grants

Fundraising is an essential component for most urban parks to achieve financial sustainability, generating anywhere from 21 percent to 42 percent or more of operating budgets. Raising this level of funds would require a sophisticated fundraising program with a dedicated, capable staff and a sufficient budget. This type of fundraising is typically done by an associated non-profit conservancy or "friends" group. The Brooklyn Bridge Park Conservancy (Conservancy) raised nearly \$1 million in 2009, however these funds were used to support Park programs and activities, rather than operations and maintenance costs.

The experience of other new City parks and other new urban parks in the U.S. was used to develop an estimate of potential additional annual fundraising to support Park operations and maintenance. Similar to sponsorships, new capital campaigns to fund planned Park improvements might allow already committed City and State funding to be reallocated to the Park's maritime maintenance reserve fund, lowering future annual maintenance costs, however a comprehensive fundraising feasibility study would be needed to fully evaluate its potential. There could be a need for redesign of some sites to enhance their potential for sponsorships. This alternative could take longer to implement than the baseline model and present additional risk in terms of the ultimate amount that could be raised, although it would diversify Park funding sources. Additional staff and budget resources would be needed to organize this activity, although this could be done by the Conservancy or another affiliated organization.

Leveraging Opportunities Related to the Expected Disposition of Watchtower Properties

The Watchtower Bible and Tract Society of New York (Watchtower) is a religious organization that owns 30 tax lots, some with multiple buildings, in the Brooklyn Heights and DUMBO neighborhoods. These office, industrial, and residential properties total just over three million square feet, and there is "as of right" development potential for an additional 860,000 square feet. Watchtower is entitling a new Upstate site that is expected to accommodate many of its current Brooklyn operations, leading to suggestions on how to capture for the benefit of the Park some of the real estate value that would occur from sale and redevelopment of these properties (e.g. conversion of a printing plant to loft residences). Watchtower is conducting an internal review of its options and has no definitive plans at this time.

Two alternatives were studied for this report: (1) agreements to allow Watchtower to use the State General Project Plan (GPP) entitlement process for rezoning or entitlements in return for payment of a share of profits to the Park, bypassing the City's Uniform Land Use Review Procedure (ULURP); and (2) redesign of the current Pier 1 hotel so that it has a smaller footprint and is taller and does not block the views of Watchtower's large building on Columbia Heights facing the Park, in return for a one-time payment of a share of the real estate value retained through preservation of the views (the redesign would not impact the protected Brooklyn Heights view corridor).

Another alternative was suggested to use PILOT agreements, to capture tax revenues as tax-exempt Watchtower properties are sold to new tax-paying owners who then start paying property taxes, was not considered because its study was not authorized by the CAH. CAH members discussed this alternative, however a majority indicated that they believe such a PILOT would not satisfy the threshold parameters because it would displace moneys that the City normally receives when tax-exempt property is sold to a tax-paying entity.

Watchtower's interest in sharing its profits in order to use the GPP process, as other developers have done, would likely be a function of the financing carry costs it might save and the shortened timeline for reviews and approval. It is assumed that Watchtower would not seek to rezone or entitle properties in a manner that would be unlikely to eventually obtain approval from the City.

Meetings with the Watchtower representatives and those who have worked with Watchtower indicate that it is a sophisticated property owner without the financial pressures or development deadlines that typically drive developer decisions. This suggests that Watchtower would pursue rezoning and entitlements as needed to increase property values prior to sale, and it would likely be a patient seller of property over a number of years. In this case, Watchtower would consider the cost for its use of GPP rather than ULURP to not be worth the savings in time, and therefore a conservative assumption was made that this alternative has no revenue potential for the Park.

This finding led to an additional idea related to increased property value from any rezoning or new entitlements that Watchtower decides to obtain through the ULURP process. This would be for the City to obtain as a condition of final approval for Watchtower-related rezoning or new entitlements, to the extent allowed by law, financial or other benefits for the Park. The CAH would need to determine if this idea meets the threshold parameters, and further extensive study would be needed to estimate its potential value based on assumptions about which properties Watchtower might seek to rezone.

For redesign of the Pier 1 hotel, it was possible to calculate an estimated number of new residential units that would have greater value because of the preserved East River and Manhattan views from Watchtower's building, and then to calculate a potential one-time payment to the Park for a share of the resulting real estate value. Redesign of Pier 1 appears to present fewer risks, primarily related to opposition to a taller building even with a smaller footprint and protection of the designated Brooklyn Heights view corridor.

Increased Parking Revenues

This alternative includes charging fees for use of the up to 80 new surface spaces on Park property adjacent to Furman Street provided for in the Park Plan, as well as the construction of over 200 new parking spaces in a new parking garage. This parking would be in addition to the 1,132 spaces being provided in various location adjacent to the Park to meet the needs of new development as well as park visitors; the additional new spaces would serve both park visitors as well as residents in the adjacent neighborhoods. This alternative could be implemented more quickly and with comparable or even less risk than the baseline model. It would diversify the Park's funding sources. There would be a need for redesign of affected areas of the Park, with impacts relative to existing sites based on location and design.

Additional Contents of the Full Report

The full report contains the complete research and analysis of the nine alternative funding sources. It also contains additional material on the creation of the CAH and its members; an overview of the current Park Plan for funding improvements and operations (the baseline model) including a review of market conditions and current risks; a comparison of the current Park funding model with other new nationally and internationally prominent urban parks. Following the report are a series of appendices that provide additional detailed information.

Next Steps: the CAH Process and Public Comment

Following the release of this draft report on February 22, 2011, interested organizations and individuals will have 60 days, until April 25, 2011, to comment in writing on the draft and provide feedback to the CAH. Written testimony should be submitted to the following email address established by BAE for this purpose at bbptestimony@bae1.com. During the comment period, a public hearing of the CAH is currently scheduled for 6:00 pm on Thursday, March 31, 2011, at the Saint Francis College Auditorium in Brooklyn. Further information on the hearing, including any changes to the date, time, or location, will be announced, and will also be posted on the BBP website once they are set, at: www.brooklynbridgeparknyc.org.

The specific set of next steps include the following:

- Receipt and review of public comments.
- Revision of the report based on public comments and CAH review.
- Final report issuance within 30 days of the close of comment period – expected May, 2011.
- The CAH, at a public meeting, reviews the final report and votes on which alternatives, if any, it wishes to recommend to the BBP Board of Directors for adoption.
- The BBP Board of Directors, at a public meeting, reviews the CAH’s recommendations and votes on whether or not to adopt them.