Franklin Park Financing Strategy: Capital and Operating Plan
12/12/12

The cost for renovating Franklin Park into a world class park can be broken down into two pieces: upfront capital costs and on-going operating costs. These two different types of costs require two distinct approaches:

1. The Capital Plan Financing Strategy - How to raise the $5 million - $10 million estimated capital funds needed.
2. The Operating Plan Financing Strategy - How to raise the funds needed to operate and maintain the park in perpetuity.

Several funding alternatives for the financing strategy and business plan are provided below.

The Capital Plan

The capital costs of renovating Franklin Park will most likely require funding from several sources.

1. <u>District General Obligation (GO) or Income Tax Secured (ITS) Bond</u>

   Under this alternative, the District government would issue a GO or ITS bond for part or all of the upfront capital costs.

2. <u>Special Assessment District</u>

   A special assessment district would entail the properties facing and proximate to Franklin Park to decide to pay a special assessment tax in addition to DC's real property tax[1] and the standard Downtown BID tax[2]. The properties immediately facing the park would pay a higher rate than the properties further away from the park. The assessment district would extend to properties 1-2 blocks from the park and would include residential buildings and hotels. Based on this projected

[1] 1.65% of the first $3M in assessed value and 1.85% of the assessed value after $3M.
[2] $0.16 per square foot of non-hotel commercial properties and $82 per hotel room.

annual revenue, the District would issue a 30-year bond, with the debt service equal to projected revenue from a special assessment.

To illustrate how much one-time funding a special assessment district could raise, a hypothetical special assessment district was created with three zones according to distance from the park (see Tables 1 and 2 below). Using the following tax rates, approximately $280,000 could be generated annually. Assuming an 8% debt service rate, this revenue stream supports approximately $3.5 million of tax exempt borrowing.

	Commercial	*Residential*[3]	*Hotels*[4]
Zone 1	$.03/SF	$24/unit	$15/room
Zone 2	$.02/SF	$16/unit	$10/room
Zone 3	$.01/SF	$8/unit	$5/room

Table 1: Hypothetical special assessment district tax rates by zone

	Total Commercial SF	*Total Residential Units*	*Total Hotel Rooms*	*Annual Assessment Total*	*Borrowing Amount* *(with debt service rate of 8%)*
Zone 1	2,809,492	-	318	$ 89,055	$ 1,113,185
Zone 2	4,632,976	-	565	98,310	1,228,869
Zone 3	7,506,996	1,297	1,853	94,472	1,180,895
Total	**14,949,464**	**1,297**	**2,736**	**$ 281,836**	**$ 3,522,948**

Table 2: Hypothetical special assessment district zone area and revenue totals

3. District Annual Budget on a Pay As You Go Basis

This scenario would entail the District government paying for part or all of the upfront capital costs using general fund revenue over 4-5 years.

[3] Assumes average residential unit is 800 square feet of usable/rentable space.
[4] Assumes average hotel room is 500 square feet including common areas.

4. Federal Highway Administration (FHWA) Funds for K Street Reconstruction

When the streetcar line is extended west along K Street, the entire right-of-way will undergo reconstruction, which is being paid for with FHWA funds. This includes the District-owned sidewalk along the north side of Franklin Park. The plan to redesign the park should specify a dedicated funding amount for this block face as part of the reconstruction project.

5. Other Federal Funds

Federally-sourced funds could include National Park Service's budget or a special authorization from Congress.

Operating Plan Alternatives

1. Concessions

A restaurant or food kiosk in the park could generate revenue in several ways. The concessionaire could pay a flat fee for rent, as is the arrangement in Bryant Park. Currently Franklin Park is one of the main downtown hubs for food trucks. Trucks regularly park along the east side of the park, spilling over along the north side of the park. As a tool to better manage the food trucks, as well as generate revenue, the parking spaces adjacent to the park could be rented or permitted to operators.

Revenue sharing is another model for generating revenues from concessions, as Madison Square Park has done with the Shake Shack. In Houston's Market Square Park, $64,000 is generated annually through an agreement where the restaurant pays 6% of their sales for sales up to $300,000 per year and 10% of sales above $300,000 per year.

Small scale concessions are popular programming components in some parks. Central Park and the new Sister Cities Park in Philadelphia rent sailboats. Many parks, including Bryant Park and the National Mall, sell tickets to ride a carousel.

2. Events

   As part of the programming of Franklin Park, scheduled events could take place in the park. Events put on by park staff could range from weekly jazz nights or yoga classes to an annual festival. These events could generate additional concessions revenue, especially through alcohol sales at evening events, vendor fees, or admission fees. Alternatively, public events can be privately-sponsored, such as the National Mall's Screen on the Green. Bryant Park and Chelsea Plaza generate significant revenue from commercial events, which include product launches.

3. District Annual Budget

   This funding is subject to annual appropriation, and, thus, less reliable than many of the other potential funding sources.

4. Sponsorships

   Bryant Park generates about a quarter of its operating budget through sponsorships. This includes selling branding rights to the ping pong tables and the reading room areas, as well as the Southwest Porch and the Citi Pond skating rink. Madison Square Park charges $7,500 for adopting a bench.

5. Payment in Lieu of Taxes for Franklin School (PILOT):

   This option relies on the redevelopment of Franklin School, the historic building along the east side of Franklin Park, into a taxable property. The value of the building would be upgraded by improving the quality of the Park. The building owner would make a payment in lieu of taxes to a lockbox or to a special-purpose, non-profit entity set-up in early 2012 for the operation, maintenance, and programming of Franklin Park in lieu of part of all of their property tax payment. The prescribed amount would keep pace with inflation according to the consumer price index. An estimated $250,000-$450,000 might be generated in this way annually.

6. Special Assessment District

The special assessment district would function as described under the capital costs financing strategy section, but the annual special assessment tax revenues would go towards the operation, maintenance, and programming of Franklin Park, as opposed to paying off a bond. Based on the hypothetical special assessment structure presented above, approximately $280,000 could be generated annually.