

STATEMENT OF CRAIG MIDDLETON

LITTLE HOOVER COMMISSION
STATE OF CALIFORNIA

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Members of the Commission, thank you for inviting me to testify today. I also appreciated the opportunity to participate in a site visit and discussion at the Veterans Home of California in Yountville on November 17, 2016.

I am Craig Middleton, former long-time executive director of the Presidio Trust, an innovative federal agency that has relied extensively on public-private partnerships to rehabilitate the historic Presidio and to make it the nation's only financially self-sufficient national park site. I also serve as the City Manager of Belvedere, California. I appear here today as a private citizen.

I commend you for your efforts to explore and address issues facing our veterans in California, and, in particular, the state's veterans homes. My hope is that our conversation may add some ideas to those you have already formulated about how private financing, through partnerships, might be brought to bear at Yountville, and perhaps other veterans homes.

For nearly two decades, starting as the organization's first employee, I worked with the Presidio Trust on a successful effort to transform America's oldest continuously operated military post into one of our most unique national park models. When I left the Trust in 2015 to pursue other interests, the Presidio had achieved this transformation. The lion's share of its six million square feet of built space had been rehabilitated and reoccupied; the park's landscapes had been revitalized; infrastructure was modernized; the public was welcomed to the Presidio through a variety of new free program offerings; and, importantly, the park was, and is now, operating in the black, and generates sufficient net operating income to sustain its operations and maintenance, and provide for its future capital needs.

Our journey at the Presidio was one of experimentation with new ways of caring for a government-owned property – ways that necessarily required a willingness to adjust in order to attract others to the challenge. The Presidio was supported with federal appropriations, but at only half the level that the Army had received just a few years before the transition occurred. Moreover, the legislation that established the Presidio Trust – the new, streamlined government entity that would manage 80% of the base – mandated that federal funding be reduced annually, and eliminated entirely after fifteen years. This placed the Presidio Trust in the position, from the start, of having to organize itself as a federal agency that would seek, and in fact depend on, relationships with others, many in the private sector, who could bring financial resources to our endeavor. It was essential that, in order to ensure public support, the Trust went about its partnership building in a manner that respected and protected the nationally-significant resources that had provided the basis on which the Presidio was deemed worthy of federal protection.

When I started work at the Presidio, the former Army base was a shell of what it is today. Most buildings were unoccupied; infrastructure was in need of significant modernization; landscapes were degraded. The Trust had very little money to work with to achieve a monumental task – rehabilitating and reoccupying six million square feet of buildings; revitalizing a landscape, including a declining 300-acre forest; building a public park with a level of quality befitting a unit of the national park system; and welcoming a diverse urban public. In 1994, detractors – those who would rather have seen the Presidio sold – dubbed the base, the “billion dollar park,” in reference to the capital requirements needed for its transformation. In that difficult political environment, we understood that the only way to accomplish the goal of saving the Presidio for public use would be to develop an innovative management and financing approach that would relieve taxpayers of costs that, in the context of national park budgets, were unacceptably high.

The Trust was established, provided with streamlined contracting authorities and, unusual for government, the ability to earn and retain revenues. The experiment worked. Today, the Presidio Trust has, with partners, built an enviable financial engine that generates over \$100 million annually for the park. It has also turned what was a military “ghost town” into a thriving community of 3,500 residents, over 200 hundred organizations, and an estimated 4 million

annual visitors. While all ownership continues to be vested in the federal government, the Presidio Trust has been able to use various lease arrangements to bring in enough capital and annual revenues to build, maintain and program the park. By the time federal appropriations ended in 2013, the Presidio Trust had attracted four non-federal dollars for every federal dollar spent.

I offer this information about the Presidio as a demonstration of a place that has thrived as the result of an innovative approach to managing a highly-regarded public asset. It is my hope that some of the lessons learned at the Presidio would be of service to your efforts to address challenges facing California's Veterans Homes, and, in particular, the Veterans Home at Yountville.

During my visit to Yountville in November of last year, I was impressed by the beauty of the campus, by the dedication of those who work there in service to veterans, and by the veterans themselves, who shared with me how fortunate they felt to live there. Like the Presidio when I first began to engage with it, the Yountville campus is also in need of significant capital investment. In some cases, issues are related to the fact that some of the facilities are old, were built to standards that have since been updated, and appear cramped and over-crowded. Other challenges relate to new expectations as to the appropriate size of a housing unit. Still others are workload related – people who work there, while talented and dedicated, seem stretched. In another comparison to the Presidio, state government is unable or unwilling to provide sufficient funding to address the needs at Yountville.

Given these realities, it would be interesting to look at how public-private partnerships, coupled with some new statutory authorities and a commitment to careful land use planning, could bring new financial resources to the Yountville campus and allow the State and others to focus on program delivery and some of the large capital investments needed to support medical care.

I am not a medical professional and would therefore not be qualified to comment on the delivery of care. I do, however, have some experience in how one might consider bringing capital and annual revenue to a public place in order to augment public resources. I stress “augment” here,

because one of the primary things that can be problematic when seeking to bring new funds into a public facility is the risk that the baseline public funding would then be diverted for other pressing uses by, in this case, the State. If we were to create new funding streams at Yountville through the establishment of public-private partnerships only to see the State then reduce its own financial commitment to the facility, we would not have achieved much for the campus or for its veteran population.

Further, it is essential that a mechanism be created that will ensure that funds earned at Yountville stay at Yountville. There are a number of ways to effect this, either through the establishment of a Presidio Trust-like state entity, or a partnership with a not-for-profit organization that is chartered and held accountable to the state. In either case, this organization should be empowered to make certain transactions in the public interest, in real time, so as to be a viable and reliable partner to both the Veterans Home and the business community. It should retain revenues for use at Yountville. The organization would need to receive seed money, probably an annual appropriation/infusion of funds that could decline over time, and should be given authority to lease certain parts of the campus. This organization should be required operate in accordance with a plan that it would develop in conjunction with the State, the Veterans Home, and nearby jurisdictions such as the city of Yountville, to ensure that its activities are appropriate to the needs of those most affected. Finally, this organization should be accountable to appropriate state authorities, and should provide for regular interaction with, and reporting to, the public.

While I would not presume, having only a cursory acquaintance with the Veterans Home, to offer specific prescriptions, I do think that a concept that involves careful planning for public-private uses that are designed to complement the existing campus and create both capital and ongoing annual revenue is worth developing.

“Low hanging fruit” may involve a look at the Yountville campus’ existing and potential housing stock. The public interest is advanced by providing good, comfortable housing for veterans. Today, veterans at Yountville live in housing units, many shared, that are, by modern standards, very cramped. It might well be possible, through a partnership with a housing development

company, to build better housing at Yountville, with capital provided by the housing developer in return for a lease payment by the State, supplemented with support from the veterans or other veterans-support organizations.

Likewise, and again subsequent to careful planning, undeveloped parts of the Yountville campus could be leased to a developer, who, under strict design guidelines, might create rental housing or appropriate retail on land owned by the State. Lease revenue from a land lease, plus other common area charges, could serve to provide a stable source of revenue that could supplement financial resources provided by the State. Put another way, a focus on creating new sources of revenue to support operations and maintenance of the campus might free up state money for medical care and other essential programs.

Given the desirability of the Yountville location and the size of the Veterans Home campus, it is possible to imagine limited new development on land leased by the State that could provide not only for housing for those veterans who are able to live independently, but also housing for the general public. Housing areas serving different populations need not be adjacent to one another – the veterans housing would likely be built within the main body of the campus; market rate rental housing for the general public would more appropriately be sited on undeveloped areas closer to the main town of Yountville and buffered from the main campus. Operations and maintenance of the housing might well be provided by a third party operator, as is the case in the Presidio. Net operating income from rental housing would be used for campus needs such as maintenance.

As indicated earlier, in order for this type of public-private arrangement to be effective, authority would need to be provided to the Yountville campus to lease part of its land for this purpose, and to retain the revenues derived from such a lease or leases. Authority to lease back some facilities – housing for veterans in this example – should also be included in the toolbox, as well as some contracting flexibility.

I offer this simply as one example of how a public-private partnership might bring benefit to the Yountville campus. In November, we heard from a number of representatives of service-providing organizations that could also bring benefit through partnership arrangements.

It takes a willingness to move in uncharted directions to achieve something unique. I believe that, if the State were willing to entertain and, possibly, to embrace public-private arrangements at Yountville, the potential exists for improving the financial position of the Veterans Home. Depending on the extent to which non-public uses might be tolerated on the campus, and on the level of comfort that authorities would have for involving outside program providers (private/non-profit organizations) in the provision of a spectrum of services to the campus and its resident population, a partnership model could bring a host of new resources and benefits to Yountville.

As a matter of public policy, it is essential that we continue to care for veterans who have given so much for us. I applaud California's longstanding commitment to this important goal. I would urge policymakers to be creative in thinking through how we deliver on this commitment. Use of public-private partnerships was tried, and has worked well at the Presidio, relieving taxpayers of a substantial financial burden, while providing a tangible public benefit. While there is no "one size fits all" approach to such partnership arrangements, I believe that a partnership model should be explored for the Yountville Veterans Home, to see what benefits might be derived for veterans and the community.

Thank you for inviting me to share my thoughts with you today. I certainly appreciate the Little Hoover Commission's attention to this issue, and your willingness to embrace innovative thinking in pursuit of this most important public imperative – finding the most effective way to improve the lives of our State's most vulnerable veterans.