

**ORGANIZATIONAL LEARNING AND CHANGE IN A PUBLIC BUREAUCRACY:
THE ROLE OF LOCAL COMMUNITIES IN CHANGING POLICIES FOR
MILITARY BASE PROPERTY TRANSFERS**

by

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ABSTRACT

There are many obstacles to the redevelopment of closed bases: environmental contamination, land use constraints, obsolete buildings, lack of infrastructure. The federal property transfer process has created additional constraints to reuse. Local communities called for sweeping changes in the traditional federal property disposal process which was considered to be unresponsive and had not met local economic recovery needs. In 1994, a new transfer tool, referred to as the Economic Development Conveyance, was created. It gives the Department of Defense the authority to transfer real property to Local Redevelopment Authorities for consideration at or below estimated fair market value, to help spur economic redevelopment and job creation.

This research seeks to understand how public bureaucracies can change and what role local communities play in promoting changes. Through the examination of the Economic Development Conveyance implementation, I will look at whether Local Redevelopment Authorities have been able to make the military departments adapt to market demands and bring them closer to their needs in terms of real estate and economic development. The examination of changes in the Economic Development Conveyance policy and implementation is based on the study of three Air Force Bases, two of them located in California (Norton AFB and Mather AFB), one in South Carolina (Myrtle Beach AFB). The study focuses on the Air Force's implementation of Economic Development Conveyances.

In this thesis, I find that the policy objectives pursued by the Department of Defense through Economic Development Conveyances have changed over time. There is a combination of fundamental reorientation and incremental changes in the implementation of this new transfer mechanism. Local Redevelopment Authorities have played an important role in the Air Force's incremental change, by providing critical information feedback. However, the military service's prevailing mental models constrain the organization's ability to change, and explain a paradoxical mix between increased responsiveness on some issues and continued inflexibility on others.

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I dedicate this thesis to my husband, Ivan, to my parents and my sister. I wish to thank them for their encouragement, patience and support.

I. INTRODUCTION

1. Military base closings and transfers to local communities

With the end of the Cold War, the Department of Defense has engaged in a phase of downsizing which involves the closure of unneeded military installations. Congress enacted base realignment and closure (BRAC) legislation that instituted base closure rounds in 1988, 1991, 1993 and 1995. Since 1988, 261 military installations have been recommended for closure. The total includes 98 major facilities.¹ The decision to close a base is followed by actions to transfer and reuse the assets. Local Redevelopment Authorities (LRAs) serve as the vehicle for base reuse activities. They usually are local governmental or quasi-governmental organizations, and are supposed to embody the impacted communities and should include private as well as public sector representatives.

There are many obstacles to the redevelopment of closed bases: environmental contamination, land use constraints, obsolete buildings, lack of infrastructure, etc. The federal property transfer process has created additional constraints to reuse. It is reported to be slow and cumbersome, sometimes causing LRAs to lose key redevelopment opportunities. In 1996, the California Defense Conversion Council observed that “the federal property transfer process remains a stumbling block to rapid redevelopment of base property because it is contentious, time consuming, and arcane.”²

¹A “major” closure is defined as one in which 300 or more civilian and/or military jobs are lost.

²California Defense Conversion Council. Defense Conversion in California: Economies in Transition. February 1996.

2. The Economic Development Conveyance mechanism

Local communities called for sweeping changes in the traditional federal property disposal process which was considered to be unresponsive and had not met local economic recovery needs. In July 1993, President Clinton announced a Five-Point Program, “Revitalizing Base Closure Communities,” to provide for more rapid redevelopment and job creation in communities affected by base closure decisions. The initiative emphasized “jobs-centered property disposal that puts local economic redevelopment first,” and gave top priority to helping communities realize early reuse of base assets. The Administration’s new approach to make base property more readily available to communities for economic development and job creation represented a fundamental change in the policy of federal property disposal at closing bases.

In November 1993, Congress supported the President’s plan by enacting the Base Closure Community Assistance Act, referred to as “title XXIX” and also known as “Pryor Amendment.” Section 2903 of title XXIX of the National Defense Authorization Act for Fiscal Year 1994 gives the Department of Defense the authority to transfer real property to Local Redevelopment Authorities for consideration at or below estimated fair market value, to help spur economic redevelopment and job creation. In April 1994, the Department of Defense issued an Interim Final Rule to provide guidance to the military departments for implementing provisions of Title XXIX. In particular, a new transfer tool, called the “Economic Development Conveyance,” was created. An Economic Development Conveyance may be at or below the estimated fair market value of the property, and terms and conditions of payment to the Department of Defense are negotiable. To be able to use this authority, the LRAs must show that economic development and job creation cannot be accomplished under established sales or public benefit transfers. The Interim Final Rule was amended twice, in October 1994 and in July 1995.

The first Economic Development Conveyance (EDC) was agreed upon in September 1994, at Norton Air Force Base, California. Since then, 28 transactions have been completed, and more local communities are now in the process of negotiating Economic Development Conveyances. Even though the EDC tool’s intent is to make base property more readily available to LRAs in a flexible manner, the implementation of the EDC policy has proved to be problematic. Some

conflicts between local communities and the military services have arisen. One area of disagreement is related to the purchase price of the property. DoD's objective is to earn a reasonable return to the federal government whereas the local communities seek to obtain the maximum discount from fair market value and the most favorable terms. LRAs' representatives have often voiced concerns over what they considered to be unrealistically high federal estimates of property values. They complain that the appraisals conducted by the military departments do not always adequately take into account the state of the infrastructure, the regulatory restrictions, or the market conditions. On the other hand, the military departments sometimes resent the fact that the LRAs systematically attempt to obtain the property for nothing and exert unnecessary political pressure. There also have been divergent interpretations of the concept of "fair market value" and whether a base property should be assessed on its current condition or its future use. Also, the lack of real estate experience within the military services and to a lesser extent within the LRAs, has not facilitated EDC negotiations.

In spite of these difficulties and conflicts, there is evidence of improvement both in the EDC terms and in the attitude of the military departments towards this type of transaction. It appears that bases that applied more recently to an EDC usually obtained better terms than earlier bases. For example, excess profits clauses which require that the LRAs return all profits made on the sale of EDC properties to the Department of Defense, were included in many of the early EDC transfers, but are generally not being imposed in recent EDC property deeds by the military departments. Although there are some differences in the ways the Air Force, the Navy and the Army approach these transactions, the negotiations are reported to be more effective and shorter. More generally, LRAs often find that the military services are now more flexible and show a greater responsiveness to real estate issues. Rules that used to be non-negotiable can now be discussed and revised.

3. Objective of the thesis and research questions

On the one hand, Local Redevelopment Authorities seek to respond to the needs of private companies and real estate developers who want to do business on closed military bases. They act as intermediaries between the federal government and the private sector. The military

bureaucracy, on the other hand, is driven by regulations and policy objectives that may not necessarily take market considerations into account. As a result, there is often a gap between the private sector's needs and the military bureaucracy's rules. The purpose of the thesis will be to examine how the LRAs have been able to bridge this gap and influence the military bureaucracy to adopt a more "market friendly" attitude. Using the example of Economic Development Conveyances, I will look at the evolution of the interactions between the military departments and the LRAs, focusing on how both parties reach agreement on the transfer and redevelopment of base properties through the new EDC mechanism. Through this study, I am hoping to provide a better understanding on how a federal bureaucracy can change, and draw lessons from the military base redevelopment example for localities dealing with the federal government.

Research questions

The research seeks to understand how local communities can influence and change federal policies as well as practices. Through the examination of the Economic Development Conveyance implementation, I will look at whether LRAs are able to make the military bureaucracy adapt to market demands and bring it closer to their needs in terms of real estate and economic development. If such influence occurs, what forms does it take? In order to answer this question, I will pay particular attention to changes in the EDC mechanism over time and to the role that local communities play in bringing about those changes. The research questions can be summarized as followed:

- What has changed in the way the military services deal with Economic Development Conveyances both in terms of transfer and redevelopment of these parcels? What are the different types of changes, in terms of policies, regulations, practices and processes? What led to these changes?
- How did LRAs contribute to changes in the EDC rules as well as in the military bureaucracy's practices and cultural attitudes? What strategies and tools are being used and what results have been achieved? What is the influence of the individual EDC transactions on federal rulemaking? Conversely, do the individual EDCs reflect the policy changes?

- What role do networks and information-sharing play in negotiating successful EDC terms, in achieving more cooperative relationships with the military services and in influencing federal regulations?
- What does the implementation of Economic Development Conveyances suggest about ways the military services have adapted their practices and their working methods? Have the relationships between the LRAs and the military services changed?

Hypothesis

To some extent, one could say that the Department of Defense has started its own internal “conversion.” How did that happen? One reason for this change is that DoD's initial very optimistic projections of income stream from the sale of excess military land did not become reality. As a result, DoD has become more willing to speed up the transfer process to local communities in order to realize operating costs savings. This change in DoD's objectives may partly explain a greater flexibility. Also, common ground between the military services and the LRAs exists because the Army, Navy, or Air Force want to terminate responsibilities and get rid of the bases as fast as possible. On the other hand, LRAs are anxious to gain quick control of the properties.

However, I argue that this explanation is not enough to account for the change in the Department of Defense and the greater sensitivity of the military services to local communities' needs and market conditions. My hypothesis is that Local Redevelopment Authorities played an important role in the evolution of DoD's understanding of and approach to the EDC process. They have developed various strategies to change the mentalities and behaviors of the military services. Moreover, LRAs may not be the only driving forces behind change. Other factors have contributed to the changes in DoD's approach to Economic Development Conveyances. The Congress in particular has played a significant role in pressuring the Department of Defense to change. Other contributing factors may be related to the internal evolution of the military bureaucracy, such as leadership changes. While taking into account a variety of parameters, this study will focus on the specific contribution of local communities to the change.

Theoretical framework and relevance of the study

There have been several studies on the issue of change and learning in government. Three main questions have been investigated: What are the obstacles to change? what are the motivations for change? and who drives it?

Change in bureaucracy's rules and practices is problematic and constrained by many obstacles. Bureaucratic organizations are biased in favor of existing task definitions. They are defined by stability, routine, and "standard operating procedures."³ Among other things, the "organizational culture"--defined by Wilson as a "persistent, patterned way of thinking about the central tasks of and human relationships within an organization"--has a central role in resistance to change. Organizations will resist taking on new tasks that seem incompatible with its dominant culture. New opportunities and challenges are tackled with routinized rather than adaptive behavior.

Mental models within an organization often serve as powerful constraints to change. Members of the organization have accumulated experiences that preclude them from even conceiving other prospects.⁴ Institutions seek to maintain a "stable state" that will protect them from the threats inherent to change.⁵ Osborne and Plastrik have identified the four fundamentals of public organizations' cultures: politics, hierarchy, bureaucracy, and monopoly. For example, government organizations are always the target of public scrutiny, which discourages risk-taking. These characteristics, according to the authors, explain why public sector employees "live in fear of making mistakes, rather than trying to innovate."⁶

Innovation requires some discretion. However, there is a tension between, on the one hand, innovation "which requires autonomy, decentralization, risk taking, and unprogrammed tasks, and, on the other hand, accountability, which requires predictability, standardization,

³ Wilson, James Q. Bureaucracy. What Government Agencies do and why they do it. Basic Books, 1989.

⁴ Behn, Robert D. "The Dilemmas of Innovation in American Government." Innovation in American Government. Challenges, Opportunities, and Dilemmas, Alan A. Altshuler and Robert D. Behn (eds.), Brookings Institution Press, Washington, D.C., 1997.

⁵ Schon, Donald. Beyond the Stable State. Random House, New York, 1971.

⁶ Osborne, David and Peter Plastrik. Banishing Bureaucracy. Addison-Wesley, 1997.

replicability, and stability”.⁷ Innovation is associated with the risk of failure. Yet “leaders in government have a much lower tolerance for failure than those in business” as mistakes in the public sector are likely to attract bad publicity to elected officials.⁸ Changing bureaucratic practices also raises the issue of fairness. Flexibility and adaptivity allow government to be better responsive to the needs of specific situations and adapt to changing circumstances. But this represents an invitation for some people to complain that a flexible interpretation of the rules or statutes is unfair to them.⁹ If on the contrary, government chooses standardization and routinization in order to minimize arbitrariness, it is criticized for being rigid and resistant to learning.

In that context, how can change happen at all? Several theories attempt to explain what accounts for change. Researchers have observed two types of changes in organizations: discontinuous change and incremental change.

1. Discontinuous changes, or “reorientations” refer to short periods during which organizations go through fundamental transformations in strategy, structure, or power.¹⁰ Schon and Argyris describe this radical transformation as “double-loop learning”, which occurs when an error is “detected and corrected in ways that involve the modification of an organization’s underlying norms, policies, and objectives.”¹¹ Reorientation or radical change can be triggered by external or internal forces:

- External forces: changes in the external environment--changes in regulations or technology for example--render the organization’s current “strategic orientation” inconsistent with the new external conditions. According to Tushman and Romanelli, such inconsistency results in declining performance. Incremental change is not enough and leads to further performance decline. Performance pressures call for a reorientation against the forces of inertia. Successful reorientation will then ensure

⁷ Lynn, Laurence E., Jr. “Innovation and the Public Interest.” Innovation in American Government. Challenges, Opportunities, and Dilemmas, Alan A. Altshuler and Robert D. Behn (eds.), Brookings Institution Press, Washington, D.C., 1997.

⁸ Behn, Op. Cit.

⁹ Ibid.

¹⁰ Tushman Michael, and Elaine Romanelli. “Organizational Evolution: A Metamorphosis Model of Convergence and Reorientation.” Research in Organizational Behavior, Vol. 7, 1985.

alignment with the new environmental context. Several authors have emphasized the role of crises as an important factor for change. Political, fiscal, economic and other crises create demands for change.¹² Crises are powerful signals of problems and mismatches between plans and realities, between policies and implementation. Crises can be defined, according to Don Schon, as “any happening perceived to be incompatible with the prevailing theory.” A crisis is disruptive and threatens the organization’s ability to perform.

- Internal forces: discontinuous change may come from the organization itself. For example, the power structure within a firm may be altered, leading to a new definition of performance objectives and calling for a reorientation.

2. Incremental change is described by Tushman and Romanelli as “convergence”, where organizations adapt and change incrementally during long time spans. After a reorientation has occurred, a new period of incremental change can take place. In this context, organizations receive feedback from the real world on what they do, detect errors, make corrections and adapt. However, problems are solved within the existing “mental model” of the organization. Existing policies and objectives are not challenged. This process is identified as “single loop learning” by Schon and Argyris. Researchers have offered several theories on the mechanisms by which incremental change is made possible. Two main theories are presented here for their relevance to this research.

- Repeated interactions: incremental change is likely to occur over time as organizations interact with outside parties. Robert Axelrod has shown how cooperation between two parties can emerge as the number of interactions increase.¹³ Repeated transactions between public sector organizations and the private sector can promote incremental change, as each party mutually learns from the other and adopts new practices. For example, Frieden and Sagalyn have shown how cities have learned about real estate development in downtown revitalization. Public sector planners have engaged in deal-making strategies with the private sector, going beyond their

¹¹ Argyris, Chris, and Donald A. Schon. Organizational Learning: A Theory of Action Perspective. Addison-Wesley, 1978.

¹² Osborne, David and Ted Gaebler. Reinventing Government. Addison-Wesley, 1992.

¹³ Axelrod, Robert. The Evolution of Cooperation. Basic Books, 1984.

traditional regulatory role.¹⁴ This appears to be relevant in the military base context where the military services handle multiple negotiations with the LRAs regarding Economic Development Conveyances.

- The role of middlemen and outsiders. Organizations' internal leaders may be subject to forces of inertia; they may not be well informed about external trends. They need to incrementally amend their plans, policies or strategies through a feedback mechanism. Middlemen can provide this feedback necessary to incremental change. They can form links, connect isolated markets, structures and individuals, and convey new information and ideas that participants would not have access to otherwise.¹⁵ Tushman and Romanelli emphasize the key role of outsiders in initiating change. Schon refer to "brokers of ideas", individuals who diffuse new ideas that will ultimately promote change in the organization.

The figure below represents a potential model by which the changes occurring in the Air Force's approach to the implementation of the Economic Development Conveyance can be analyzed. In the thesis, I will test whether or not this model is valid and how the Local Redevelopment Authorities intervene in the loop to promote changes.

¹⁴ Frieden, Bernard J., and Lynne B. Sagalyn. Downtown, Inc. How America Rebuilds Cities. MIT Press, 1989.

¹⁵ Landa, Janet Thai. Trust, Ethnicity, and Identity. University of Michigan Press, 1994.

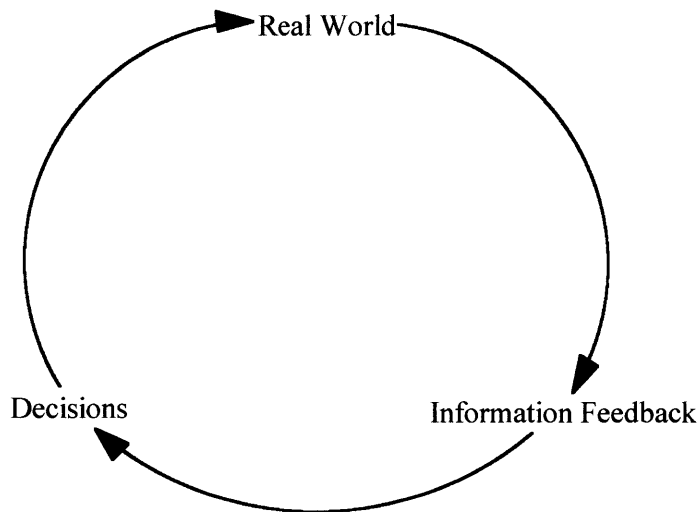


Fig. 1. Learning is a feedback process.

Source: Sterman, John D. "Learning in and about complex systems." *System Dynamics Review*. Volume 10, Numbers 2-3, Summer-Fall 1994.

The military bureaucracy seems to be particularly well suited for a study of change in federal agencies' rules and practices. "If ever one needed evidence that bureaucracy is inefficient, the Pentagon supplies it," Wilson wrote.¹⁶ Osborne and Gaebler describe the Department of Defense as "America's archetypal bureaucracy."¹⁷ Reports describing military base conversion reflect these criticisms. With environmental contamination and jurisdictional battles, government bureaucracy is one of the "largest impediments to quick, successful job replacement on closed military bases."¹⁸ The reuse process is slow, cumbersome, sometimes unclear, and local communities have to contribute increasing resources to procedures and negotiations. Every local community has its war stories to tell regarding the military services' rigidity and misapprehension of market realities.

¹⁶ Wilson, Op. Cit.

¹⁷ Osborne and Gaebler, Op. Cit.

¹⁸ Cunningham, Keith. *Base Closure and Reuse: 24 Case Studies*. Report by the BENS Defense Transitions Project, April 1993.

The improvement over time in the military services' approach to base redevelopment and their more "market-friendly" attitudes have been noted by LRAs' representatives. However, the nature and the factors of this change have not been fully documented and analyzed. The research will provide an opportunity to test the validity of the theoretical framework on change detailed earlier. In particular, can the changes observed in the military bureaucracy be characterized as discontinuous or incremental or both? What accounts for the changes? A closer examination of Economic Development Conveyance issues should provide an understanding on how changes have been brought about and what role LRAs have played in military bureaucracy learning. Measuring the evolution of Economic Development Conveyances over time will be an indirect way of assessing the "learning curve" of the actors as well as their ability to transform what they learn from the field into action. One of the principles of "reinventing government" defined by Osborne and Gaebler is that government should be customer-driven and meet the needs of the customer rather than the bureaucracy. Beyond looking at changes in the transfer of military properties, this thesis will reflect on bottom-up transformations of federal government, and how local communities can contribute to "reinventing government," by bringing it closer to their needs.

4. Methodology

Data for the study have been collected from two main sources: open-ended interviews with the actors involved in the EDC process and written documentation. The methodology of the research consists of three main steps:

- Examination of the overall Economic Development Conveyance framework. Relevant legislation, EDC rules and amendments have been reviewed. In addition, interviews with representatives from the Department of Defense as well as with other actors who played a role in the definition of the EDC rules have been conducted. The purpose of this first phase of the research is to understand how the EDC regulation evolved and what factors contributed to the changes.

- Case study of Norton Air Force Base Economic Development Conveyance. Norton AFB, located in San Bernardino, California, was recommended for closure in 1988. This base was the first one to apply for an EDC and to benefit from the new transfer mechanism. The EDC was negotiated while the rules were being formulated, and served as a practical test for a concept broadly defined in the legislation. As the first EDC, Norton is studied in detail in this thesis, in order to provide a baseline for comparison with subsequent EDC transactions. Interviews were conducted with representatives of the LRA and the Air Force to reconstruct all the steps from EDC application to the negotiations and the implementation.

- Comparison with two air force bases which obtained Economic Development Conveyances after Norton in order to measure the evolution of the EDC process. In order to understand the changes that occurred between 1994--year of the first EDC--and 1997, two bases were selected, on the basis of the EDC approval date and for their comparability with Norton in terms of economic conditions and value of the base asset. The two facilities are: Mather AFB (California) and Myrtle Beach AFB (South Carolina). The issues that appeared critical for the Norton EDC were revisited in the context of these bases, in order to evaluate the evolution of the EDC process over time. For this phase, interviews were conducted with:
 - LRAs' executive directors;
 - attorneys, consultants and real estate advisors to the LRAs;
 - negotiators from the Air Force Base Conversion Agency.

For this study, I chose to focus on Air Force Bases that obtained EDCs and to exclude bases from the two other services, for three reasons. First, although the three military services have approved a total of 29 Economic Development Conveyances to date, the Air Force has approved twice as many EDCs (15) as the Navy (7) and the Army (7). Therefore, in order to trace changes in the EDC implementation over time, it made sense to concentrate on the Air Force which approved the very first EDC (Norton) and has already gained substantial experience with these transactions. Second, there is some variation in the way the three services handle EDCs. Because the study seeks to compare early EDCs with later ones and analyze the evolution of the process, focusing on Air Force Bases allows for better consistency and comparability. A third reason is

that studying the three services in depth would have been a daunting task beyond the reach of a master's thesis.

5. Organization of the study

The remainder of the report is divided in five chapters. Chapter two provides an overview of the Economic Development Conveyance process, describes the history of the legislation and examines the various changes in the rules. Chapter three is a case study of the first Economic Development Conveyance, Norton Air Force Base, and identifies the critical issues and problems that were encountered in the implementation of the new transfer mechanism at Norton. This case study provides a baseline for the comparison with other bases in chapter four. Chapter five provide some analysis of the changes that were described in the preceding sections, and chapter six draws conclusions on the overall EDC process.

II. OVERVIEW OF THE ECONOMIC DEVELOPMENT CONVEYANCE: HISTORY AND PROCESS

1. History of the Economic Development Conveyance

The need for a new transfer mechanism

The Federal Property and Administrative Services Act of 1949 establishes the process of disposing of property deemed excess to an agency's needs or surplus to the government's requirements. In the case of base closures, property considered excess to the needs of one military service may be requested by the other military services and federal agencies to satisfy program requirements. Property not selected by the agencies is declared surplus to the federal government, and becomes available to others including state and local governments, for conveyance through a variety of means such as public or negotiated sales and transfers to state and local governments for public benefit purposes such as education, public health, recreation, airports, wildlife conservation, and historic monuments. Negotiated and public sales of surplus land and facilities are usually handled by the General Services Administration (GSA). However, in 1988, Congress shifted the responsibility for disposing of base closure properties from the GSA to the Secretary of Defense.

The delays in property transfers and interim lease approvals, the uncertainties related to the environmental remediation process, led base closure communities to criticize the DoD base reuse system in the early 1990s. It appeared that negotiated purchases and public bid sales were not appropriate mechanisms for transferring base properties that required large up-front infrastructure investments. As a result, local communities started to pressure the Clinton Administration in 1993 for changing the base reuse process, through their Congressional offices and through public interest groups such as the National Association of Counties and the National Association of Installation Developers.

Pryor's Task Force

A Senate Democratic Task Force, chaired by Senator David Pryor, was organized, and conducted public hearings in the Spring 1993. Senator Pryor was familiar with a base reuse experience at Eaker Air Force Base, located in his home state, Arkansas. On the basis of this example, he reported the following:

“Since the 1991 closure announcement, our efforts to redevelop this Air Force base have been hindered by Government obstruction and endless bureaucratic redtape.”¹⁹

The task force gathered feedback from base closure communities and on this occasion, “learned that the Department of Defense and other Federal agencies in the past too often have placed their own narrow needs ahead of the needs of the communities.”²⁰ As a result, a strong emphasis of the task force’s recommendations was placed on “reinventing government” to help defense impacted communities and to eliminate bureaucratic barriers to economic development, giving communities a voice in the redevelopment process and making sure that the base closure process would be driven by the community’s needs and not governmental needs.

President Clinton's Five-part program

On July 2, 1993, President Clinton announced a new policy to speed the economic recovery of communities affected by base closures. The five parts outlined in this program were jobs-centered property disposal, fast-track cleanup, transition coordinators, easy access to transition and redevelopment help, and larger economic development grants. The first part in the President’s Program called for “jobs-centered property disposal that puts local economic development first.” The Program indicated that:

“the Clinton Administration will seek a change in federal law to allow the Department to turn over property for economic development when community development plans meet a strict test for economic viability and job creation. The Defense Department will also get rid of other roadblocks to rapid reuse of base property.”

¹⁹ Report of the Senate Democratic Task Force on Defense Reinvestment. Congressional Record, S9482, July 27, 1993.

²⁰ Ibid.

The Pryor Amendment

President Clinton's initiative was followed by legislation through Title XXIX of the 1994 National Defense Authorization Act. Section 2903 (also known as the "Pryor Amendment") gave the Secretary of Defense the authority to transfer base properties to Local Redevelopment Authorities at or below fair market value:

"The transfer of property may be for consideration at or below the estimated fair market value of the property transferred or without consideration."²¹

The Secretary of Defense determines the estimated fair market value of the property to be transferred and is required to provide a written explanation if a property is transferred for consideration below the estimated fair market value. If the property is later sold by the LRA to another party, or leased at a higher price, the Secretary of Defense should be able to recoup a portion of that amount. The legislation also indicates that base properties located in rural areas can be conveyed at no cost.

2. The Department of Defense's implementing regulations

Responsibility for property disposal decisions under Section 2903 was delegated to the Secretaries of the three military departments. After the Pryor Amendment was passed, the Department of Defense implemented the legislation by creating an additional tool for local communities to help foster economic development through the creation of a new form of conveyance, referred to as the Economic Development Conveyance. The new property disposal process was presented in DoD's Interim Final Rule, published in the Federal Register on April 6, 1994.²² The scope of this implementing rule does not relate exclusively to Economic Development Conveyances, and also includes guidelines on real property screening to aid disposal planning, interim leasing, personal property inventory and disposal, and minimum maintenance levels necessary to support civilian use. However, for the purpose of this research,

²¹ National Defense Authorization Act for Fiscal Year [Public law 103-160] Title XXIX – Defense Base Closure and Realignment. Section 2903.

²² Department of Defense. "Revitalizing Base Closure Communities and Community Assistance." Interim Final Rule. *Federal Register*, Vol. 59, No.66, April 6, 1994.

only the sections of the regulations and the amendments related to EDCs will be discussed. The rule broadly defined DoD's policy as follows:

“It is DoD policy to help communities affected by base closures achieve rapid economic recovery through effective reuse of the assets of closing bases--more quickly, more effectively and in ways based on local market conditions and locally developed reuse plans.”

The new property disposal process described in the Department of Defense's Interim Final Rule is designed to:

“rapidly create new jobs, either by taking advantage of a ready market for development of valuable property or by inducing a market through conveyances for economic development, initially without consideration.”²³

A “market test” was established as a precondition to any Economic Development Conveyance. This approach was designed to help determine whether immediate private development of a property was possible by advertising its availability and soliciting private interest.

“If the Military Department decides that an expression of interest received demonstrates the existence of a ready market, the prospect of job creation, and offers proceeds consistent with the range of estimated fair market value, it may decide to offer the property for sale. The property proposed for sale shall promptly be publicly identified, and the redevelopment authority shall be notified.”

In addition to the market test definition, the rule stipulated that:

“A few high value installations for which a ready market apparently exists may, nevertheless, not have generated any expressions of interest during the allotted six month period. Regardless, such installations provide an opportunity for private sector rapid job creation which should be pursued. In these cases, the Military Departments, based on completed appraisals or other estimates of the fair market value, shall inform redevelopment authorities that the property is expected to be offered for sale and an Economic Development Conveyance should not be anticipated”

In the case it was determined that there was no ready market for a property, the Economic Development Conveyance authority could be used. As stated in the rule,

²³ Interim Final Rule, § 91.7 (d) Jobs-centered property disposal.

“The new authority permits the DoD to convey land and buildings to redevelopment authorities initially for free, after it is determined that the base, or significant portions thereof, cannot be sold in accordance with the rapid job creation concept. Such conveyances may help induce a market for the property, thereby, enhancing economic recovery.”

A section devoted to Economic Development Conveyances describes the different steps involved to make such transfers possible²⁴:

- before making an EDC of real property, an appraisal of the property’s fair market value should be made, “based on the proposed reuse of the property;”
- the military departments should consult with the LRA on appraisal assumptions, guidelines and on instructions given to the appraiser, but is fully responsible for completion of the appraisal;
- the military departments are required to prepare a written explanation on why a transfer was made using an EDC, as this mechanism should not be used if a Public Benefit Conveyance is feasible;
- The LRA must submit an EDC request to the Secretary of the military department that includes a description of the property to be conveyed, a statement of the LRA’s legal authority to acquire the property, a redevelopment plan, a statement explaining why existing public benefit conveyance authorities are not appropriate.

Base properties located in rural areas are subject to specific provisions. The rule states that an EDC can be made without consideration and without recoupment in a rural area “when the base closure will have a substantial adverse impact on the economy of the local community and on the prospect of its economic recovery from the closure.”

Finally, a section is entirely devoted to the implementation of the profit-sharing provision in the case a property transferred under an EDC is later sold or leased. The standard excess profits covenant promulgated by the GSA is to be used as the basis for implementing the recoupment policy in the context of Economic Development Conveyances. The net profits should be shared on a basis of 60% to the LRA and 40% to the Department of Defense. According to the rule,

²⁴ § 91.7 (e) Economic Development Conveyances

“The division of profits shall be based on net profits and the share shall generally favor the local redevelopment authority. There shall be a 15-year time limit on the share of profits. The government’s portion of the receipts from the profit shall not exceed the fair market value of the property at the time it was conveyed to the local redevelopment authority.”²⁵

3. The initial response to the DoD’s Interim Final Rule and the amendments

The reactions to the Department of Defense’s initial rule

In order to explain the Interim Final Rule and gather public comments, four outreach seminars were held across the country by the Department of Defense between April and August 1994. The “market test” prompted a strong negative reaction from the impacted communities. Some comments indicated that the market test would undermine the community marketing and planning process, and would not necessarily speed job creation. In addition, the rule was interpreted as permitting “cherry-picking” of valuable property while leaving the “trash” to the community.²⁶ The National Association of Installation Developers wrote that the rule was likely to create an “adversarial climate,” and that “despite the enactment of Section 2903, DoD has returned to a priority high value property sales approach.”²⁷ There was also some controversy around the fact that the DoD’s rules suggested that the properties would be appraised according to their “proposed reuse” rather than the property’s current condition. In a NAID technical guide on base closure property acquisition, John Lynch, George Schlossberg, and Bill Bopf wrote that:

“from a community perspective, the April 6th DoD rules appeared as another attempt to realize maximum DoD sales returns under the guise of job-creation. The communities also believed the DoD rules betrayed the President’s Five-Point Program, which had emphasized the key role for the community’s base reuse plan. Many of the local leaders suggested that high-value properties could be identified without DoD’s ready-market testing through a business plan to accompany the base reuse planning document.”²⁸

²⁵ § 91.7 (f) Profit sharing

²⁶ Urban Land Institute. Handbook for Workshop on Military Base Disposition and Reuse Strategies for the Department of Defense. Washington, DC, August 1994.

²⁷ Draft NAID comments on Interim Final Rules, April 14, 1994.

²⁸ Lynch, John, George Schlossberg and William Bopf. Acquiring Base Closure Property. NAID Technical Guide, Washington, DC, January 1995.

Robert Hertzfeld was involved in the writing of the rules, as a Special Assistant to the Deputy Assistant Secretary of Defense for Economic Reinvestment and BRAC. He explained the Department of Defense's initial motivation for including a market test in the rule:

“They were committed that these properties would raise money. I think they wanted to prove whether there was value there or not.”

In response to public comments, the Assistant Secretary of Defense for Economic Security²⁹ convened a BRAC Implementation Working Group with representatives from the military departments and from the Office of the Secretary of Defense in order to develop revisions for the final rules. One of the Working Group's first products was an amendment to the April 1994 interim final rule, issued by the Department of Defense in October 1994, that addressed the requirements for Economic Development Conveyances. A workshop was also organized through the Urban Land Institute as an opportunity for DoD officials to discuss the new regulations with some members of the private development community.

DoD's Interim Final Rule, Amendments, October 26, 1994

The Interim Final Rule was amended in response to the comments received by DoD and published in the Federal Register on October 26, 1994. As the document explained,

“During the public comment process, the Department of Defense learned that some of the procedures contained in the interim final rule may be impractical and not assist in reaching the rapid economic redevelopment goals. As a result, they are being revised by this amendment.”³⁰

Several changes were proposed in the amendment, eliminating the market test requirement, clarifying the procedures for applying for an EDC, and providing guidance for greater flexibility on the compensation to the federal government for real property conveyed under an EDC. The modifications are detailed below:

²⁹ Now the Deputy Under Secretary of Defense (Industrial Affairs and Installations).

³⁰ Department of Defense. “Revitalizing Base Closure Communities and Community Assistance.” Interim Final Rule. Federal Register, Vol. 59, No.206, October 26, 1994.

- **Elimination of the “market test.”** The DoD removed the “market test” from the rule in response to the public criticisms that it had raised. The DoD recognized that soliciting private interest for base properties may not be effective if the local communities have not provided the investment and infrastructure needed for redevelopment, for example in terms of zoning or public utilities. This choice was justified in the following manner:

“many comments suggested that private developers would not spend the time and money necessary to prepare a detailed expression of interest until after a community redevelopment plan was approved, if at all. Additionally, the interim final rule was perceived to encourage private developers to “cherry-pick” valuable parcels for private sector sales and leave the less attractive parcels for the community redevelopment. This effort was said to be inconsistent with proper planning methods and not in the long-term interest of enhancing local economic recovery.”

- **Clarification of the valuation terms.** The revised rule indicates that appraisals will be based on “present fair market value.”
- **More detailed guidelines for required EDC application and LRA’s business plan.** The new rule establishes detailed guidelines and requirements for Economic Development Conveyance applications. A detailed application, including the approved community redevelopment plan is now the basis for a determination of whether or not an LRA will be eligible for an EDC. The rule lists the different elements that an adequate EDC application should contain. In particular, the LRA is now required to prepare a business and redevelopment plan for the EDC parcel, including a development timetable, phasing plan and cash flow analysis; a market and financial feasibility analysis describing the economic viability of the project, including an estimate of net proceeds over a 15-year period, the proposed consideration or payment to the DoD and the estimated fair market value of the property; a cost estimate and justification for infrastructure and other investments needed for the development of the parcels and the proposed financing strategies for the development. The business plan concept was inspired by the experience of England Air Force Base where the LRA had prepared a business plan for the airport conveyance and indicated that it greatly helped the community to understand what resources were needed and what the risks would be. The idea appeared attractive to one of the authors of the rules, Rob Hertzfeld:

“we decided that it was the best way to determine value, and that it helped the community understand whether they really wanted to do this. It would set up an interesting dynamic between true value versus elected officials understanding whether they want to take the risk.”

- **Definition of criteria to evaluate EDC applications.** These criteria include for example the short-term and long-term job generation, the consistency with the overall redevelopment plan, the financial feasibility of the development, the extent of state and local investment and the level of risk incurred, the economic benefit to the federal government, etc.
- **Transfers of EDC properties at or below estimated fair market value.** The initial rule indicated that installations would be conveyed at no initial cost with a recoupment provision. The rule had also defined guidelines for the recoupment of value by the federal government if net proceeds were realized by development on the EDC properties. The revised rule makes clear that “when there is value, the DoD has an obligation under Title XXIX of the National Defense Authorization Act for FY 1994 to obtain consideration within the estimated range of present fair market value, or to justify why such consideration was not realized.” The rule now gives the Secretary of Defense the “authority to transfer property to local redevelopment authorities for consideration in cash or in kind, with or without initial payment or with only partial payment at time of transfer, at or below the estimated fair market value of the property.” The procedures detailed in the rule indicate that the military departments must prepare an estimate of the “present fair market value of the property, which may be expressed as a range of values”, before making an EDC.

Under the revised regulation, the military departments have the discretion to enter into one of two types of agreements:

- The EDC property can be transferred to the LRA for consideration within the estimated range of present fair market value.
- The EDC property can be transferred for consideration below the estimated range of fair market value, where “proper justification” is provided and if “the Secretary of the Military Department determines that a discount is necessary for economic redevelopment and job creation.” The justification for a discount should be based on

the findings in the business and development plan contained in the EDC application, such as absorption schedules and infrastructure costs. When a property is transferred at less than estimated range of fair market value, the military departments must prepare a written document explaining the reasons.

- **Elimination of the profit-sharing provision.** The recoupment policy defined in the initial regulation proved to be too difficult to implement, as Rob Hertzfeld explained:

“It created a tremendous administrative burden, because they would have to monitor over twenty years what the expenses and income were, whether there was profit or not. That is why we determined that the most efficient way for the government to act was to let the community come up with a proposed business plan based upon the potential income and expense, and agree upon a value, based upon an income approach to valuation (...) It was much better to agree on a price at the beginning, based upon what the conditions are, sell the property and then let the repayments be based on some income.”

- **Greater flexibility in the negotiation of the terms and conditions of an EDC.** The military departments can be flexible about the terms and conditions of payment, and can provide financing on the property. Payment can be in cash or in-kind, can be paid at time of transfer or at a time in the future. Methods of payment could include participation in the gross or net cash flow, deferred payments, mortgages or other financing arrangements. However, the rule emphasizes that the military services should look for a balance between the interests of the federal government and the need for the EDC to promote job creation and economic development. As is stated in the document,

“In negotiating the terms and conditions of consideration with the local redevelopment authority, the Secretary of the Military Department must determine that a fair and reasonable compensation to the Federal Government will be realized from the EDC.”

DoD's Final Rule, July 20, 1995

The Final Rule was published in July 1995 in the Federal Register. It incorporated the amendments defined in the previous version of the rule, as well a few minor changes. In addition to the different amendments that modified the rule over time, a change in the overall tone of the regulation can also be observed. In particular, in the final document, greater emphasis is placed

on the cooperation between the military departments and the LRAs. Three principles should guide the whole process: consultation, partnering, and flexibility. As an example of the new language that sets the tone for the final regulation:

“the Military Departments and LRAs should work together honestly and with full disclosure. Their efforts should be coordinated to minimize duplicative efforts and avoid misunderstandings. Mutual goals can be achieved between parties that treat each other as partners, not adversaries.”³¹

In the final regulation, the requirement for an excess profits clause was removed. The valuation procedure for EDC properties was also clarified. For example, when preparing an estimate of present fair market value for a property, the military departments shall now include “to the extent practicable, the uses identified in the local redevelopment plan.” Finally, some details were included regarding the payment for an EDC property, such as the use of predetermined release prices. It was also made clear that if the consideration was within the estimated range of present fair market value, “the amount paid in the future should take into account the time value of money and include repayment of interest. Any transaction that waives or delays interest payments will be considered as a transaction below the present fair market value (...) and as such must be justified as necessary for economic development and job creation.”

The Base Reuse Implementation Manual

Following the publication of the Final Rule in July 1995, the Department of Defense prepared a Base Reuse Implementation Manual (BRIM) in order to offer more practical guidance to the military services. Chapter seven is devoted to Economic Development Conveyances. The BRIM was published in August 1995 and revised in December 1997 to reflect experience gained on the field. The BRIM gives broad guiding principles to the military services for implementing the EDC rule. It also provides a concrete description of the different steps of the process, including the various financing options and a sample cash flow model. “We tried to make the rule as general as possible, keep as much flexibility as possible, give a guidance manual that did not prescribe specific action but gave ideas and examples,” Rob Hertzfeld explained.

³¹ Department of Defense. “Revitalizing Base Closure Communities and Community Assistance.” Final Rule. Federal Register, Vol. 60, No.139, July 20, 1995.

**Economic Development Conveyances
Guiding Principles for the Military Departments**

- Job creation and rapid property transfers are the main goals.
- Work with the community to reach these common goals.
- Remember that quicker property transfers will benefit the Government through savings of protection and maintenance expenses. Waiting for the highest theoretical price for property may result in lower present value, or nothing at all.
- Focus on reaching agreement on realistic market trends. Due to the wide range of conditions existing in affected communities, appropriate market trends could result in estimates of fair market value ranging from zero to hundreds of millions of dollars.
- Encourage the community to take as much property as can be justified as part of an EDC. The EDC parcel should include a variety of properties, some of which may not be of immediate value without improvement, and some of which must be used to leverage financing for needed improvements.
- Look at community investment and risk. The more the community is investing in the overall development, the more they are contributing to the overall value. The less the community is investing, the higher the risk for the Federal Government and the more the Government is contributing to the overall value.
- Look at the financial resources of the EDC applicant. Be wary of undercapitalized entities, because without proper capital, the development may not be able to support the necessary investments to create and maintain job generation.
- Remember that the EDC is a new tool, specifically designed to allow for flexibility. There is no single way to structure an EDC or a cookie-cutter answer that applies in all cases. Keep in mind you are not bound by typical GSA rules for valuation or payment terms and conditions. This new authority should be used in creative and innovative ways!

Source: Department of Defense. Base Reuse Implementation Manual. December 1997. Chapter 7: Economic Development Conveyances, p. 7-2.

A critical issue addressed by the BRIM is the valuation of EDC properties. As indicated in the regulations, the military services are required to determine the fair market value of a property before conveying it through an EDC. Valuation is a sensitive issue and the determination of fair market value for EDC properties has been an ongoing subject of controversy and conflict between the LRAs and the military services. As stated in the BRIM,

“A key to a successful EDC is a proper and *realistic* valuation of the property. This must be done in a cooperative fashion, with both the LRA and the Military Department using realistic market trends that are right for the local marketplace.”

Recognizing the lack of comparable sales and the physical obsolescence of military buildings, the guidelines recommend the use of an income approach to valuation, instead of the standard real estate appraisals based on the comparable or cost approach to value. The guidelines also stipulate that fair market value should be estimated in terms of its present value, not its value after development. The estimated fair market value, as defined by the guidelines, is “the economic value minus the cost to cure the physical and infrastructure obsolescence of the base to make the space and land usable in present-day market conditions.”

The new version of the guidelines published in December 1997 modified and clarified the valuation process. In accordance with DoD’s Final Rule, the previous guidelines indicated that the military appraisal should be based on the intended land uses defined in the LRA’s redevelopment plan, “to the extent practicable.” In practice, this term proved to be ambiguous, and lent itself to some degree of subjective interpretation by the military services who could base their appraisal on the highest and best use, rather than on the community redevelopment plan. The revised version of the guidelines deleted this phrase, and made it clear that the appraisal should focus upon the uses contained in the plan and that the estimated fair market value should be expressed as “a range of values based on the intended land uses outlined in the redevelopment plan.”

In addition, the initial guidelines encouraged the military services to share valuation assumptions as early as possible with the LRAs and provide a copy of these assumptions to the local community. The Office of Economic Adjustment reported that this guideline was not well received by the services’ appraisers who believed this was in conflict with their profession’s

ethics. As a result, the guideline about sharing valuation assumptions was removed from the revised BRIM in favor of the term “market trends.” The military departments are now encouraged to “share market trends underpinning their appraisal as soon as they are available and the LRA should strive to include this data in its analysis.” The BRIM guidelines emphasize the need for some “connectivity” between the LRA’s business plan and the military department’s appraisal efforts. The LRA should therefore be able to incorporate market trend data from the military appraisal in its business plan. This way, there should be a linkage between the community’s business plan and the military service’s appraisal, theoretically providing a sound basis for the EDC negotiations to follow and allowing both parties to identify potential inconsistencies.

The military services are also required to begin the appraisal within six months after the reuse plan is completed so that it does not become obsolete by the time the military appraisal is completed. While the market trends that underpin the determination of the value and the appraiser’s scope of work can be shared with the local community, the final dollar figure for the site remains a confidential number, although in some instances, the services provide some information allowing the community to identify the value, sometimes to expedite the negotiations, Patrick O’Brien, Project Manager at the Office of Economic Adjustment, indicated.

Achieving a cooperative process is a recurrent theme in the EDC guidelines defined by the BRIM. This emphasis on cooperation partly derives from the fact that working with local communities is not an obvious process to the military services. Patrick O’Brien explained:

“What was laid out in the new EDC process was a program that went against the services’ paradigms to that date. The services had never interacted with the communities.”

For example, even though the LRAs are responsible for preparing EDC applications, the military departments are encouraged to work with them early in the process, and provide assistance with the development of the application. In addition, in order to promote better cooperation and discussion between the military services and the local communities, the revised BRIM suggests that a “pre-EDC workshop” should be organized, with representatives from the LRA, the military service, the Office of Economic Adjustment Project Manager and the Base Transition

Coordinator. This workshop allows the different parties to discuss the different property acquisition alternatives, the EDC application requirements, and the timetables, even before an application is formally submitted by the LRA. One of the benefits of this pre-EDC workshop is to “start defusing issues before they get out of hand,” Pat O’Brien explained. The appraisal process, often a contentious issue, should also be handled in a cooperative fashion. According to Patrick O’Brien :

“What we want to have is the appraiser sitting down with the LRA as they deliberate the process, hearing the discussions over potential land uses, what is the community consensus on it, if there are reuse consultants involved, hearing from the consultants, interacting with the community so that they can include that.”

SUMMARY OF CHANGES IN THE ECONOMIC DEVELOPMENT CONVEYANCE RULES

| Interim Final Rule April 6, 1994 | Interim Final Rule October 26, 1994 | Final Rule July 20, 1995 | Base Reuse Manual December 1997 Changes from 1995 BRIM |
|---|---|---|--|
| <p>Distinction between readily marketable properties and not readily marketable properties.</p> <p>Properties will be subject to market test: expressions of interest will be requested from private sector. High value properties will be sold.</p> <p>DoD can convey land and buildings to LRAs initially for free, after it is determined that the base or significant portions cannot be sold in accordance with rapid job creation concept.</p> <p>Profit-sharing provision if the property is later sold or leased.</p> <p>Division of profits based on net profits in favor of the LRA. 15-year time limit on share of profits. 60% to LRA, 40% to the Federal Government split of net profits. Government cannot get more than FMV of property at time of conveyance.</p> <p>Properties in rural areas can be conveyed at no cost and no recoupment</p> | <p>Delete section on "job-centered property disposal" and accompanying market test. High value property sales approach abandoned.</p> <p>Profit-sharing provision deleted.</p> <p>Except for properties located in rural areas, EDC will not be no-cost conveyances any more. Instead, DoD can enter in 2 types of agreements: - Consideration within range of estimated fair market value - Consideration below range of estimated fair market value.</p> <p>If consideration below range of FMV, LRAs must provide rationale for a discount from FMV. Only if LRA's business plan demonstrates that discount is needed for economic redevelopment and job creation does the MD consider a conveyance at less than FMV.</p> <p>Military appraisals: estimate of present FMV for an EDC should include, "to the extent practicable, the uses identified in the local redevelopment plan."</p> <p>More detailed guidelines for EDC applications (LRA's business plan required); definition of criteria to evaluate EDC applications.</p> | <p>Excess profits clause is removed</p> <p>Emphasis on "consultation, partnering, flexibility."</p> | <p>Pre-EDC workshop to establish timelines and assistance.</p> <p>Military appraisals should commence within 6 months of local redevelopment plan completion. The phrase " to the extent practicable" is deleted: instead, "the estimated FMV should be expressed as a range of values based on the intended land uses outlined in the redevelopment plan."</p> <p>1995 BRIM on military appraisals: LRA and MD should discuss valuation assumptions as early in the process as possible and are encouraged to seek agreement on assumptions underlying valuation. A copy of the valuation assumptions and instructions given to the person responsible for completion of the valuation should be provided to the LRA.</p> <p>1997 BRIM: MD should share market trends underpinning their appraisal as soon as they are available and the LRA should strive to include this data in its analysis. "Ensure some connectivity" between the LRA's business plan and MD's appraisal efforts.</p> <p>Change in the determination of "substantial adverse impact" for rural EDCs.</p> |

Sources: Department of Defense. "Revitalizing Base Closure Community Assistance."; Base Reuse Implementation Manual.

Abbreviations: Economic Development Conveyance (EDC); Fair Market Value (FMV); Local Redevelopment Authority (LRA); Military Department (MD)

4. The Economic Development Conveyance in practice

Before the Economic Development Conveyance tool was created, surplus land and facilities needed for job creation had to be acquired through open public sales or negotiated purchases. No discounts from fair market value for job creation purposes were allowed. In addition, negotiated sales were subject to congressional review under the Federal Property Act of 1949, which could make real estate transfers to communities particularly cumbersome. Unlike negotiated sales under the 1949 Federal Property Act, EDCs transactions are not submitted to the Congressional Committees for review.

A Local Redevelopment Authority recognized by the Secretary of Defense through OEA is the only entity eligible to receive property under an EDC. The LRA may be a state or local government or an authority established by state or local governments. The BRIM states that “it should have broad-based membership, including, but not limited to, representatives from those jurisdictions with zoning authority over the property.”

The three military services have different structures to rely on for the implementation of the Economic Development Conveyance policy. The Air Force for instance does not have a field structure in the same way as the Army and the Navy do. The negotiation of EDCs is handled by the Air Force Base Conversion Agency, headquartered in Arlington, Virginia. The Air Force contracts with the General Services Administration to undertake property appraisals. The Army relies on the Army Construction Engineering Research Laboratories to undertake technical reviews of EDC applications. Most of the work is done in-house. The Navy did not have internal expertise, and has contracted with private consultants.

Ultimately, at the end of the EDC approval chain, the Office of Secretary of Defense reviews the terms and conditions of each EDC. This concurrence ensures that the proposed EDC deals are consistent with the policies. To date, 29 economic development conveyances have been approved by the three services.

III. THE FIRST ECONOMIC DEVELOPMENT CONVEYANCE: NORTON AIR FORCE BASE

1. Introduction

Norton Air Force Base, located within the incorporated limits of the City of San Bernardino, California, was originally established as the San Bernardino Army Airfield in July 1942, and was renamed in honor of Captain Leland Norton, a local World War II pilot killed over France in 1944. In December 1988, the closure of Norton Air Force Base was announced for March 1994. 10,000 jobs were lost. The base covers 2,288 acres including a 10,000 foot runway, offices, warehouses and industrial structures. In 1990, the Inland Valley Development Agency (IVDA) was formed among the cities of San Bernardino, Colton and Loma Linda, and the County of San Bernardino to handle the reuse of Norton AFB. In 1992, the San Bernardino International Airport Authority (SBIAA) was formed as a Joint Powers Authority and became responsible for operating, repairing, maintaining and administering the Airport portion of the base--approximately 1,300 acres which were transferred through a public benefit conveyance in January 1994.

The Inland Valley Development Agency requested approximately 580 acres at Norton AFB under an Economic Development Conveyance. The EDC was the first one approved in the country, in September 1994. The negotiations between the IVDA and the Air Force occurred at the very time the EDC implementing rules were being finalized. As a result, both parties were plowing new ground, and Norton provided the first opportunity to test the EDC transfer mechanism.

2. The IVDA's plans for Norton and the EDC application

The LRA recognized it needed to gain control of the base as quickly as possible in order to foster development. The strategy as laid out in the reuse plan was to build an industrial

park at Norton and take advantage of the airport. As a result, the IVDA's Executive Director, Bill Bopf, took steps to buy the non-aviation portion of the base, as well as a 208-acre golf course, initially through a negotiated sale. The IVDA was in negotiations for a year with the Air Force to figure out how the LRA would buy the property when the Pryor Amendment went through. At this time, the IVDA decided to apply for an "Economic Development Transfer" in February 1994, even though no implementation rules had been formulated yet. As Bill Bopf recalls,

"We built the case in our application, there was not even a format for it (...) We had some tentative leases available and people had shown sincere interest, so we were able to demonstrate on a map where we thought the jobs would occur."

In the EDC application, the IVDA listed several reasons why such a transfer would be justified:

- the infrastructure needs for development exceeded \$76 million in the first five years;
- the potential leasees did not have the ability to pay all of their costs or market rents expected by the Air Force;
- the real estate market in Southern California was severely depressed and there were many other alternatives available other than Norton property.³²

The application emphasized the job creation benefits that would be realized through the economic development transfer. In its offer, the LRA projected a total of approximately 6,750 jobs. At that time, the IVDA had high hopes for a 5,000 job-generating World Trade Center to be built on 147 acres of the EDC property. The Worldpointe International Trade Center would consist of 400 individual firms, primarily from Taiwan and other Asian countries, and would offer convention, conference, and trade services within 1.5 million square feet of office, exhibition hall, retail, and service facilities. This would be accompanied by one million square feet of warehousing and light assembly facilities.³³ The Trade Center would have the status of a foreign trade zone, allowing

³² IVDA, Letter to the AFBCA requesting an Economic Benefit Transfer, February 23, 1994.

³³ IVDA, San Bernardino International Trade Center Specific Plan, 1996.

imported materials to come in duty-free for final assembly. The \$400 million project was to be built by Cal Tai Associates, a commercial real estate development firm based in San Jose with ties to the Taiwanese government.

The Norton EDC application was received by the Air Force at the time the DoD rules were being implemented. The first interim final rule for EDC, issued in April 1994, were used in evaluating the proposal submitted by the IVDA.

3. The Economic Development Conveyance negotiations: the issues at stake

Conflicting objectives between the Air Force and the IVDA

As the EDC process was brand new and the definite rules were not cast in stone yet, the IVDA reported that Air Force officials were pursuing goals which were different from the local community for the EDC transaction. The LRA's goals were clearly stated in the EDC application:

“We simply do not have the financial resources to pay millions of dollars for land acquisition, demolish asbestos-containing buildings and install new infrastructure. We need the cooperation of the AFBCA to provide the property at little or no cost to realize the economic benefits noted.”³⁴

The strategy of the Air Force was described by the LRA as one which initially sought to maximize the revenues from the sale of the bases in order to fund the cost of closure and the cost of environmental remediation. Derence Fivehouse, Acting Chief Counsel at the Legal Division of the Air Force Base Conversion Agency, has been involved in all the EDC negotiations at Norton. He summarizes the Air Force's goal for the Norton EDC as follows:

“Our general objective was to create a fair transaction, to figure out how we could implement what Congress intended. What we read into the Pryor amendment was that Congress intended there would be a fair exchange, a fair balancing of the needs of the community with the needs of the federal government to be compensated.”

³⁴ IVDA, Letter to the AFBCA requesting an Economic Benefit Transfer, February 23, 1994.

The appraisal

One of the very first steps in an EDC transaction was to determine the value of the property requested as part of the EDC. Both the Air Force and the IVDA had their own appraisals done. The appraisal became a strong issue of disagreement between the LRA and Air Force officials, for several reasons. The Air Force usually contracts with the General Services Administration to undertake a fair market value appraisal, and does not share it with local communities, although NAID has called for DoD-sponsored appraisals to be made available to LRAs. According to Derence Fivehouse, even though no law forbids the military service to share this type of information with the affected communities, the Air Force has adopted the GSA standard practice of keeping the appraisals confidential:

“The difference in an EDC transaction is that you are working more closely with the community in developing your valuation, but it still doesn’t mean they get access to the appraisal. We still have to negotiate. There is no law that says you do not reveal appraisals. However it is a standard practice of GSA and one which we have adopted not to reveal appraisals because you don’t have any room to negotiate once you reveal an appraisal.”

At Norton, the Air Force’s position regarding the release of the appraisal created a climate of distrust from the outset. The assumptions used by the Air Force to conduct the appraisal were challenged by the IVDA. According to Bill Bopf, the Air Force had the appraisal done by a San Francisco Bay area-based company which was reflecting prices that the IVDA felt were more consistent with the San Francisco market where the property values were much higher than with the San Bernardino area which was going through a localized recession. “They priced the property on old data, different prices. They came up with a value that was probably at least twice or three times what it was actually was,” Bill Bopf indicated.

Moreover, the IVDA found that most of the buildings had structural, electrical, plumbing and asbestos problems and would have to be demolished. In addition, they did not meet building codes. As such, they should not be included in the appraisal. However, the LRA reported a disagreement on this topic with Air Force representatives who considered the

buildings were usable “as is.” Derence Fivehouse disagrees on this interpretation of the Air Force appraisal:

“That would not be consistent with the condition of the property and it would not be consistent with the way appraisers typically approach redevelopment projects. They assume that there is some obsolescence in the buildings, they assume tenant improvements, they assume infrastructure improvements. They are dealing in some cases with facilities that don’t meet the expectations of the local commercial real estate community (...) You can’t lease an office building on Norton AFB, even the best one, for the same per square foot value you can lease a classic facility outside the gate. You just can’t do it. That is all reflected in the price you can get for the property.”

Derence Fivehouse added that anyway, because this information was not made available to the IVDA, they could only “guess” the Air Force’s valuation assumptions.

The conflicting values

The IVDA had an independent appraisal which concluded that the base had a negative value due to the cost required to develop the site, including demolishing most buildings, asbestos abatement and restoring infrastructure systems. However, IVDA’s interpretation was that the Air Force established the selling price on the basis that the buildings were usable and marketable in their current condition. The price was fixed at \$52 million: the assigned value to the golf course was \$6 million and the price for the remainder of the EDC property was \$46 million. As Bill Bopf recalls, “we were worlds apart.”

Derence Fivehouse explained how the Air Force arrived at the \$52 million price:

“We established a \$52 million price tag based on a standard appraisal and the discount, if any, derives from the manner in which the payments are made. We didn’t have an interest rate calculated into the payment structure. The Air Force’s perspective was this: if the project succeeded, and the property was developed quickly, then we were likely to get our price in a relatively short period of time. We were estimating under 10 years, even though the provision for the duration was 15 years. We were basically willing to accept the risk that the project wouldn’t take off, that we wouldn’t get paid until year 15.”

He also recalled that originally, the property was supposed to be transferred through a negotiated sale, not an Economic Development Conveyance. As a result, the Air Force

already had a GSA-contracted appraisal that was supposed to be used for the negotiated sale. As he explained,

“Norton was unique in the EDC in that the valuation was based on a straight highest and best use analysis. In general terms, it probably resulted in a higher valuation of the property that we would have achieved if we had used the methodology that is described now in the EDC guidelines.”

The excess profits clause

The excess profits clause was another conflictual issue at Norton. It provided that if the IVDA was to sell a piece of the property for more than what it paid to the Air Force, then the difference should be returned to the military service. According to Bill Bopf, the inclusion of an excess profits clause was partly explained by the Air Force’s perception that the IVDA was going to make a profit on the base. “We had to constantly fight the suspicion that the community was going to be unjustly enriched when to the contrary, the community had just taken a terrible blow.” At the time of the EDC discussions with the Air Force, the IVDA felt that the excess profits clause was not negotiable and therefore accepted it.

Reaching an agreement: the negotiations

The application was submitted to the Air Force in February 1994, and the negotiations started in the Spring of 1994. The executive director of the IVDA, an attorney, and a representative of the IVDA’s CPA firm formed the negotiating team on the LRA side. Although the appraisal secured by the IVDA showed negative value, the IVDA made an offer of \$20 million to the Air Force. Members of the LRA asked to make only a modest down payment and pay the debt over a period of time. In addition, they requested not to return all the lease or sale revenue to the Air Force as they collected them. Initially, Bill Bopf indicated that the IVDA was willing to pay a 5 or 6% interest on \$20 million on a 20-year term. According to the executive director, Air Force officials made the \$52 million price non negotiable. However, they proposed a 15-year term, with no down payment and 0% interest. The offer was accepted by the IVDA. Bill Bopf explained: “We

reluctantly accepted their price because they gave us 15 years to pay it off and we didn't have to make any interest payments.”

Two factors can explain why the IVDA accepted the Air Force's proposal. First, the IVDA calculated that the present value of a \$52 million purchase with no interest payment in 15 years was pretty close to what the LRA had actually offered to the Air Force in the first place. As Timothy J. Sabo, Attorney at Law working for the IVDA, explained:

“The Air Force wanted to be paid in cash and we said it can't be done. We need some terms. How could a 52 million dollars current appraised value equate to a 52 million dollars future value? To the Air Force, it didn't matter. 52 million in 15 years discounted by 7% per year, it is worth 18.8 million today. That's a more realistic price.”

Second, IVDA members felt they could not afford to turn down the Air Force's conditions. In light of the economic recession and the job loss, there was a pressure on the part of the community and the IVDA board of directors to acquire the property from the Air Force. The IVDA had come to the conclusion that the longer the military service retained control of the base asset, the slower the redevelopment. “We had to get control of it or we wouldn't have had any jobs,” Bill Bopf indicated. According to Tim Sabo, the service may have taken advantage of the LRA's weak negotiating position, threatening the LRA to delay the transfer of the property if the IVDA did not comply. It was a take it or leave it deal As he explained:

“It is a bad deal, but we can't let the Air Force just walk away, and we can't wait and do nothing. The community had no choice, and I think that the Air Force realized that.”

4. The final EDC agreement (September 1994)

On September 14, 1994, a Supplemental Record of Decision was issued by the Air Force to accept IVDA's offer to purchase 575 acres, through the Economic Development Conveyance mechanism. On March 7, 1995, the Air Force and the IVDA signed the

Economic Development Conveyance agreement transferring 575 acres to the IVDA, including gas, electric and telephone utilities but excluding the water, sewer and storm drains. The IVDA will pay \$46 million for the property and \$6 million for the golf course, without interest, over a 15 year period, using a 40%-60% profit split on lease and sale revenues. The terms of the payment were based on the April 1994 EDC rule which provided for the 60%/40% split of the net profits. However, because it was perceived that the accounting system required to verify proper application of expenses would be too burdensome, the parties ultimately agreed to a split of gross rents. The IVDA would have to pay the Air Force 40% of the gross rents on the EDC property excluding the golf course, and 10% of gross receipts for the golf course. The rents paid would be credited toward payment of the debt evidenced by a promissory note and secured by a purchase money deed of trust. A balloon payment of any remaining debt would become due at the end of the 15th year.

Five documents were required to consummate the transaction: a purchase and sale agreement, a promissory note, a deed of trust, a quitclaim deed, and a long-term lease in furtherance of conveyance. The long-term lease was necessary since most of the property was undergoing environmental remediation and Section 120 of the Comprehensive Environmental Response, Compensation, and Liability Act precluded immediate deed transfer.³⁵

5. Amendment n°1 (April 1997)

The problems with the EDC agreement

Even though the IVDA had accepted the EDC terms and conditions, LRA members were not satisfied with the deal and immediately started to think about ways to improve it. In practice, the IVDA found that some restrictions built in the agreement proved to be obstacles to the redevelopment of the base. In particular, terms of the EDC required the sale of entire parcels. The smallest were about 30 acres, and others were as large as 70, 80, or even 150 acres. The parcels were too large for most potential buyers. In addition, if

the LRA was able to sell one of the parcels, the buyer would have to pay immediate cash for them, as the EDC precluded installment sales. Under the EDC terms, the IVDA was obliged to give the full release price to the Air Force on a sale, which proved to be too high, Bill Bopf indicated.

The negotiations with the Air Force

The strategy used by the IVDA to convince the Air Force Base Conversion Agency to amend the EDC agreement was to show that the EDC was not working in practice. Bill Bopf made the case that there would be more opportunities for redevelopment at Norton if the conditions underlying the EDC were made more realistic and flexible. As he recalled,

“we went to them with deals that we had and said: we could make this deal, it is a real contract we could write. You would have to approve it because it does not fit with our EDC. In a couple of cases, they gave approval but that process took extra time (...) We said that we would have more of these deals and we needed to make these deals more automatic.”

The Air Force soon became convinced that the release provisions precluded development of the property. As Darence Fivehouse explained,

“What we had anticipated was that there would be somebody interested enough in those parcels to bring his own capital or obtain independent financing to purchase the property. That did not happen. We had all kinds of properties at Norton with price tags associated with them, and nobody interested in paying the full price. So something had to be done.”

The IVDA requested that the EDC be amended to allow partial releases and installment sales. At that time, the LRA had established contacts with Ming Plaza, a developer which proposed to build a \$70 million hotel, sports and virtual reality entertainment center on the former Norton Air Force Base. This particular sale transaction could be achieved only if the Air Force agreed to amend the EDC. Darence Fivehouse explained why the Air Force agreed to the amendment:

³⁵ Department of Defense. Base Reuse Implementation Manual. December 1997.

“It was in response to a particular transaction. You can sit and conceptualize all you want in these deals but if you don’t have something real that you are trying to achieve, you are just going to sit around and talk. No progress is going to be made. But if you have somebody who has got some money and some plans, and something is going to happen, then it’s a big motivator. That’s what happened at Norton (...) We were interested in assisting the community to attract development. The community supported this project. We looked at all the terms of the project and felt that our risk was not significant and we agreed to change the terms of the deal.”

The contents of the amendment

The negotiations with the Air Force lasted for about a year. The amendment was signed in April 1997. The essence of amendment n°1 is summarized in the following paragraph:

“This Amendment No. 1 establishes the ability of the Redevelopment Authority to enter into leases with the option to purchase and installment sale agreements whereby the Air Force will release and reconvene the deed of trust to be recorded by the Air Force upon that portion of the property to enable a title transfer by the Redevelopment Authority to a purchaser thereof for such parcel sizes as are deemed necessary by the Redevelopment Authority based upon market conditions.”³⁶

The EDC amendment brought several changes: the partial releases made it possible for the IVDA to convey smaller land parcels, without triggering the full payment of agreed upon release price based on larger land parcels. In addition, the Air Force accepted to subordinate its security interest to commercial construction loans. Finally, the excess profits covenant originally incorporated into the EDC transaction was eliminated.

The fact that the IVDA could now sell any size of parcel of land on an installment basis to companies represented a major change in the financial structure by which the LRA could transfer titles to developers interested in acquiring property at the base. In practice, the amendment made possible the sale of a parcel to the Ming Plaza Development company. On January 27, 1997, the IVDA sold 29 acres of property on a 10-year installment plan for a total purchase price of \$9 million, with a \$500,000 down payment

³⁶ Amendment No. 1 to Agreement between the Department of the Air Force and the Inland Valley Development Agency, April 1997.

made by Ming Plaza Development. The title was transferred to the buyer in March 1997. Per the installment plan outlined in the purchase agreement, the IVDA will receive \$750,000 per year for the first four years and \$1.1 million over the following five years. The Air Force subordinated its leasehold and fee interest in the 29-acre parcel to the IVDA and the developer's lender so that the IVDA could sell the property and convey deed title to Ming Plaza Development. The IVDA also subordinated its leasehold and fee interest to the developer's lender. The sale to Ming represented the first local reuse authority sale of base closure property in California.³⁷

Air Force officials agreed to subordinate its interest in the Ming Plaza parcel because they felt there was only a low risk for them in doing so. According to Derence Fivehouse, the Air Force was being asked to subordinate only to \$1 million on a property that was worth \$9 million. The agreement provided that the government would receive around \$400,000 upon the consummation of the loan. In addition, the Air Force received the assurance that the LRA would not allow the property to go into foreclosure.

6. Amendment n°2 (1998)

The need for another Amendment

In 1997 and 1998, the IVDA has experienced some disappointments with the direction of the development at the former Norton base. Financial problems substantially delayed the Worldpointe International Trade Center that was supposed to generate 5,000 jobs. In February 1997, the IVDA decided to abandon the project and terminated its relations with Cal Tai. Since then, the LRA has sought to lease the facilities originally slated for the development of the Trade Center. In addition, The Ming Development Project did not work as originally expected and the developer defaulted.

While the LRA encountered these unexpected difficulties in the redevelopment of the property, the Air Force completed several EDC transactions at other bases around the country. The service had gained some experience with these types of deals, and it soon

³⁷ IVDA Today, Vol.2, Issue 3, January 23, 1997.

became clear to members of the IVDA that bases generally enjoyed better terms and conditions for their Economic Development Conveyances than Norton. “We were penalized in my mind because we were first,” said Jerry Eaves, Chairman of the Board of Supervisors of San Bernardino County. For example, in certain instances, the Air Force transferred golf courses to local communities--such as Myrtle Beach AFB--at no cost, whereas the IVDA had to pay \$6 million for the golf course that was included in the EDC. Being the first EDC, Norton had served as a field of experimentation, and was put at a disadvantage compared to subsequent bases that went through the EDC process.

The conjunction of those two factors explained the decision of the IVDA to re open the discussions with the Air Force over the EDC agreement. As Bill Bopf indicated,

“we think we paid too much, we think that we have invested a lot and that they can lower the price and give us more time (...) we go to the Air Force to tell them that the price is too high and that the terms are not long enough, because some of the other bases have gotten a better deal.”

Among the reasons for renegotiating the EDC agreement once again, the IVDA argued that the airport portion of the former base, conveyed to the San Bernardino International Airport Authority (SBIAA), was small compared to what other bases later obtained: “we felt that they were unreasonably restrictive in what they gave us for the Airport,” Bill Bopf explained. As a public transfer, The SBIAA had requested 1773 acres as a public benefit transfer. However, the property conveyed was approximately 1,300 acres. The airport was not self supporting, and as a result, the IVDA has loaned the Airport Authority nearly \$6 million to keep the airport in operation.

The negotiations with the Air Force

The amendment is currently being negotiated between the Air Force and the IVDA, and has not been finalized yet. According to Bill Bopf, Air Force officials have already agreed in concept to transfer some of the property that was part of the original EDC property into the Airport property, which will reduce the note owed to the Air Force by about 20 million. The Airport at the former base should get about 100 acres from the EDC property as a Public Benefit transfer. The IVDA has also asked for a 10-year extension for any unpaid balance on the due date of the note: three years at no cost on the

basis that the economic conditions in the area had left the LRA with very few development options after the EDC initial agreement; and seven years on which the IVDA would be willing to pay interest. According to Tim Sabo, the time extension is still being discussed with Air Force officials.

7. Summary of the main issues for the Norton EDC negotiations

At Norton, three main issues prevailed during the negotiations of the first EDC agreement. The discussion about appraisal and the determination of value is the first theme. The relationships between the LRA and the Air Force constitute the second critical piece. Finally the connection between the implementation of the EDC and the redevelopment is the third theme. I will discuss these three issues in the context of the negotiations of the Economic Development Conveyance at Norton, and I will re-examine them in the next chapter in order to draw comparisons between how things were handled for the first EDC and how they were dealt with by other bases. Norton will thus provide a baseline against which the evolution and changes in the EDC process and implementation can be measured.

Price and valuation

The first EDC negotiation at Norton was characterized by a disagreement between the LRA and the IVDA over the value of the property. Even though in present value terms, the asking price of the Air Force came close to what the IVDA was willing to pay, the IVDA's appraisal determined a negative value for the property. Therefore there was a substantial difference between the Air Force's asking price and the LRA's appraised value.

The fact that the Air Force refused to share the appraisal results with the LRA created a climate of distrust between the two parties. Although they did not have access to the actual documentation, IVDA members challenged the Air Force's valuation assumptions. In particular, the Air Force was severely criticized for not taking into consideration that

most of the buildings on the base were old, did not meet building codes and had asbestos problems. According to the IVDA, the buildings were declared usable “as is” by the Air Force which did not recognize the need for rehabilitation or upgrade. Because the transfer of the property to the IVDA was initially envisioned as a negotiated sale and not an EDC, the Air Force appraisal was based on highest and best use, which may have altered the EDC process.

Given the contentious nature of the appraisal issues, Bill Bopf and members of NAID have advocated for the release of the military appraisals to the local communities. John Lynch, George Schlossberg, and Bill Bopf wrote in a NAID Technical Guide on base closure property acquisition, published in January 1995:

“On appraisals for EDC areas, communities should ask to see a copy of the DoD-sponsored appraisal. Unlike negotiated sales, there are no requirements in the DoD rules to withhold this information from the LRA.”³⁸

Relationships with the Air Force

Lack of trust and common goals

Certainly in part because both parties were working in a foreign territory, the EDC negotiations were held in a climate of suspicion and mistrust. LRA members felt they were not in a strong position to negotiate, and that the pressure to gain control of the property and promote economic recovery as quickly as possible drove them to accept terms and conditions from the Air Force that were less than optimal. Although economic development and job creation represented the essence of the Pryor amendment and should have been a common goal for both the Air Force and the local community, it appeared to the IVDA that the military service used the LRA’s job creation motive to gain a bargaining advantage and extract the maximum value from the EDC transaction.

³⁸Lynch, John, George Schlossberg and William Bopf. Acquiring Base Closure Property. NAID Technical Guide, January 1995.

In the NAID Guide to base property acquisition, John Lynch, George Schlossberg and Bill Bopf wrote that “unfortunately, the myth of selling base closure land for big profits is still alive and well in some corners of DoD.”

Flexibility and responsiveness of the Air Force

During the negotiations of the first EDC agreement, the IVDA often found that the Air Force took a very rigid approach and would impose non negotiable conditions, such as the excess profits clause. “That’s the way it is” was the response that IVDA members reported to get from the Air Force as they asked for some explanations or clarifications for some of the conditions and terms of the EDC.

However, the IVDA observed a significant change in the Air Force’s attitude between the first EDC negotiations and the discussions on the subsequent amendments. Over time, it seemed that the service had become more flexible and responsive to the LRA’s requests. As the IVDA came back to the Air Force to renegotiate the EDC and showed military representatives practical problems encountered in the redevelopment of the base, the Air Force’s approach changed. As soon as Air Force representatives understood that the projected redevelopment was not happening as expected and that the EDC represented an additional obstacle, they became willing to make it work. Tim Sabo explained:

“They wanted to accommodate us. I think they were somewhat embarrassed that they had such high hopes for Norton and it was not working (...) We gave them a reality check, we said it’s not working.”

In particular, Tim Sabo recognized that both the IVDA and the Air Force shared the same desire to achieve the sale to Ming Plaza. “The Air Force would have done anything to make that sale work. And I have to give them credit on how quickly they reacted to that,” he said.

On the Air Force side, Derence Fivehouse recognized that there has been a change between the first EDC agreement and the subsequent amendments. In particular, he indicated that the initial negotiations were difficult because nobody understood what was going to happen on the property. By contrast, the negotiations for the amendment no 1

were focused on supporting a particular transaction, the Ming Plaza deal. It was “more focused and result oriented,” he said.

The Norton EDC: a test for a new mechanism

Overall, the EDC transaction at Norton can be seen as a trial and error process. When the first EDC agreement was negotiated, the regulations were not definite. Some of the conflicts that emerged at the time between the LRA and the Air Force could be partly explained by the fact that there was still not a clear framework to rely on. The Norton EDC was largely seen as a test by the Air Force which felt that the Pryor amendment did not include much guidance on how those new transfers would work. Derence Fivehouse explained that:

“In general, we used Norton as a test for developing our thinking about how EDCs should be structured, the kind of policy with respect to the kind of terms we should be agreeing to.”

Because the IVDA started the application process even before the DoD implementing rules were adopted, the Air Force asked the IVDA to modify the EDC requests on the basis of evolving regulations. Conversely, Bill Bopf indicated that the Department of Defense also listened to their arguments, and would modify the regulations that would make both the Norton deal possible and the implementation of the EDC mechanism feasible. The novelty of the EDC process sometimes necessitated that the IVDA negotiated not only with the Air Force Base Conversion Agency, but appealed to higher levels of the military hierarchy. As Bill Bopf explained,

“We could not wait for the regulations. So we had to make sure that the Pentagon and the Secretary of Defense personnel were aware of what we were trying to do and stress the urgency for us to proceed without having to wait for the regulations to come out (...) They kept one eye on the regulations as they were being formulated and one eye on what we were doing.”

Moreover, the IVDA members found it effective to keep their Congressmen informed on the ongoing negotiations. This approach was all the most justified as the military service did not necessarily possess the appropriate real estate knowledge to deal with these new

type of transactions. As Jerry Eaves, Chairman of the Board of Supervisors of San Bernardino County, recalled,

“They [the Air Force] don’t have any idea about development or timeliness of a deal, or anything else to do with disposing of a property. Being one of the first, we were constantly negotiating with them, telling them that they did not know what they were doing!”

Both Tim Sabo and Bill Bopf had substantial experience in development. They often experienced frustration as they felt some of their proposals made sense for any private real estate developer but could not get through the Air Force which was not accustomed to handling real estate finance concepts. As a result, the IVDA often felt the need to appeal to higher levels of the military hierarchy, in order to find someone who would understand. As Tim Sabo recalled:

“You have the lack of true knowledge of what this whole thing is about and as you go up through the chain of command for the next higher level, it is somebody who also is not equipped to deal with these issues. I am pointing out where things have just gone wrong because you can’t get somebody on the other side who understands what this is all about.”

EDC implementation requirements

High expectations for the redevelopment of the EDC property on both sides

Both the LRA and the Air Force had been over-optimistic about the state of the California economy and what it would take to redevelop the former Norton Air Force Base. On the IVDA side, high hopes were placed in the International World Trade Center which was supposed to act as the driving economic force on the base. This optimism probably explained why the LRA was willing to pay \$20 million for the property. Bill Bopf admitted that he was not aware at the time that it would take another three years to come out of the recession. On the side of the Air Force, the same optimism regarding the early development of Norton prevailed and officials expected a major reduction in the debt owed to the service in only a few years. Derence Fivehouse recalled:

“When we did this in 1995, there were people who thought the California economy was going to turn around very quickly, there were people who thought that if this was successfully redeveloped, we would get payoff in 7 years. And if you ran the numbers based on an optimistic payoff scenario, then the present value exceeded 20 million.”

The lack of experience with the new EDC process and wrong assumptions regarding the development of the base combined to produce an EDC agreement that soon appeared to be flawed both to the Air Force and the IVDA.

Restrictions

There were a number of restrictions in the original EDC agreement that in the view of the LRA, either acted as disincentives or precluded development. For example, in accordance with the initial DoD implementing rule being drafted at the same time, an excess profits clause was imposed. The IVDA argued that the excess profits clause acted as a disincentive to the LRA to sell any property at a price in excess of the Department of Defense’s appraised value. Profits returned by the LRA to the Air Force from the sale of EDC parcels did not count as a credit towards the total purchase price of the property. However this argument did not convince the Air Force at the time.

The original EDC agreement did not allow subordination to other financing. It also included release provisions that established the size of the parcels to be released in advance. In addition, any potential buyer had to make an up-front payment for a parcel to be returned to the Air Force. In practice, this arrangement proved to be unworkable: there were no takers for parcels which could be as big as 150 acres. Therefore the EDC agreement had a direct impact on the ability of the IVDA to redevelop the property.

Summary

The negotiations of the very first Economic Development Conveyance at Norton Air Force Base were contentious. The Local Redevelopment Authority and the Air Force disagreed on a number of issues. Conflicts were the strongest around valuation and price.

In addition, the EDC agreement had some provisions that negatively impacted the redevelopment of the property. At the time of the first negotiations, the IVDA felt they had no choice but to accept the terms and conditions set by the Air Force.

However, the two parties have been able to renegotiate the EDC terms to reflect the changed conditions and expectations. The Air Force has not taken a “non-negotiable” stance as it did in the very first round of negotiations. Between the first EDC agreement and the amendments, there is some indication that the military service’s approach to these transactions has changed. The next chapter examines the experiences of two other bases with Economic Development Conveyances, and explores whether there have been changes in the Air Force’s approach and the implementation of this transfer tool.

IV. THE ECONOMIC DEVELOPMENT CONVEYANCE PROCESS IN PERSPECTIVE: COMPARISON WITH OTHER BASES

1. Presentation of the bases

Choice of the bases

In order to trace changes in the Economic Development Conveyance process and implementation since the first transaction of this type was approved at Norton Air Force Base, two bases that benefited from the EDC mechanism were selected for a comparison with Norton. Two criteria were used to choose the bases. Timing of the EDC approval was the first criteria. In order to measure the evolution of the process, it was important to allow some time between the approval of the first EDC at Norton (September 1994) and the approval of subsequent EDCs. One of the bases selected was approved for an EDC in October 1996 (Mather Air Force Base); the other base, Myrtle Beach Air Force Base, had its EDC approved a year later, in September 1997. The second criteria used to select the bases is related to the value and location of the EDC property. Out of the 15 EDCs approved by the Air Force, five are Rural Area EDCs: these are no-cost conveyances for bases located in rural areas. Rural Area EDCs raise different issues, and cannot be compared to “regular” EDC bases such as Norton. Therefore these transactions were eliminated from the selection. The choice of the two bases was guided by their location in high-growth urban areas: Sacramento, California, and Myrtle Beach, South Carolina.

In the remainder of the chapter, I provide a brief description of the two bases as well as a summary of the economic development conveyance terms and conditions for each of them. I will then revisit the three main issues that proved to be critical or problematic in the case of the Norton EDC and will explore how they were handled in the two bases. Although the examination of the issues will mainly draw upon the experiences of the two bases, some examples from other EDC transactions will be discussed occasionally.

Mather Air Force Base

The former Mather Air Force Base is located in the unincorporated portion of Sacramento County, 12 miles southeast of downtown Sacramento. The 5,716 acre-base includes a 11,300 foot runway, a parallel 6,100 foot runway, aircraft hangars, office and industrial structures, 18 dormitory buildings, 1,271 units of single family housing, a golf course, a hospital and some recreational facilities. Mather opened as a center for pilot training in 1918. The base was announced for closure as part of 1988 BRAC round decisions, and officially closed on September 30, 1993. 1,988 military jobs and 1,012 civilian jobs were lost. The County of Sacramento, and more specifically the Board of Supervisors, acts as the Local Redevelopment Authority. With three military base closures to deal with in the region—the Sacramento Army Depot, Mather AFB and McClellan AFB—the county has established a separate office, the County Department of Military Base Conversion, to manage the conversion effort. There are currently 1,894 jobs and 50 tenants on the former Mather AFB. Mather Field opened as a civilian airport in May 1995, with the international air cargo carrier Airborne Express as the first major tenant.

An Economic Development Conveyance was requested by Sacramento County in April 1995 and was signed on October 31, 1996. The 770-acre property that was conveyed through the EDC involves the non-aviation areas of the former Mather AFB, and is managed and developed by the county through a private real estate development firm, McCuen Properties. In June 1997, McGraw-Hill, the publishing firm, moved into the renovated base exchange and is the largest private employer on the base, creating 200 jobs. The terms and conditions of the EDC agreement for Mather are briefly summarized below³⁹:

- The price for the 770-acre property is \$7,933,750, secured by a purchase money deed of trust with a simple interest rate equal to GSA's financing rate (8.25%).
- Payment of the principal balance is due in 15 years.

³⁹ Sources: Department of Defense Base Closure and Reinvestment Office; Lynch, John, and George R. Schlossberg. Economic Development Conveyances: Nineteen Case Studies. NAID, Washington, DC, April 1997.

- No down payment and no payments are required during the first five years.
- Beginning in year 6, the LRA will pay 20% of agreed release prices (minimum release prices are set for each individual parcels) up to \$1 million. Once 50% of the value of the property has been released from the deed of trust, the LRA will pay 100% of the release price. Beginning in year 11, the LRA will pay \$600,000 per year, or up to \$2.9 million over five years. If at the end of year 10, development has approximated \$35 million in sales or sales equivalent, simple interest will continue to accrue on the unpaid balance until the end of year 15 when the unpaid balance is due. If development does not attain \$35 million, all accrued interest will be forgiven and the outstanding principal is due in year 15.
- The price may be reduced by \$2,000 for each new job created on the EDC property that qualifies for the County's job incentive program, up to a maximum of 1,650 qualifying jobs (a total of \$3.3 million).

Myrtle Beach Air Force Base

Myrtle Beach Air Force Base is located in the southern part of the City of Myrtle Beach, South Carolina. It is about 95 miles north of Charleston and 75 miles south of Wilmington, North Carolina. Myrtle Beach is a growing resort area. The 4,000-acre base opened in 1940. It was on the 1991 BRAC closure list and closed on March 31, 1993. Closure eliminated 3,193 military and 784 civilian positions and \$90 million annual payroll. The base was the largest community employer. The Myrtle Beach Air Base Redevelopment Authority acts as the LRA. It is a nine-member state entity with city, county and state representatives. The LRA completed a redevelopment plan in January 1993. Redevelopment activity has generated 560 new jobs as of October 1997. The Horry County Aviation Department employs almost 350 people in the daily running of the commercial airport. Aviation-related businesses account for additional 100 jobs. Other reuses include education, recreation, county and city governments, and a range of small businesses.

The LRA originally submitted an EDC application in December 1994 and completed the business plan in December 1996. The EDC was approved in July 1997. The EDC area focuses on commercial and industrial land and excludes the golf course, housing and the public airport conveyed or sold separately. The Myrtle Beach Air Force Base Redevelopment Authority is planning for a "New Urban village" described as a

traditional neighborhood development with a mix of residential and commercial uses. The terms and conditions of the EDC agreement for Myrtle Beach AFB are briefly summarized below⁴⁰:

- The purchase price for the 429-acre property is \$8,500,000. It reflects the costs of infrastructure investment necessary to redevelop the base.
- No down payment is required.
- Within a 15-year-payback period, interest only payments will be required over the first three years, with principal equal payments beginning year 4 (with equal payments through yr. 15).
- Interest will be compounded over the life of the loan at a rate of the 10-year Treasury note, plus 1 ½ percent rounded to the nearest eighth

2. Comparative analysis of Economic Development Conveyance issues

Price and valuation

At Mather Air Force Base, there was a strong disagreement over the value of the EDC property between Sacramento County and the Air Force, and discussions lasted for about a year. After failing to achieve agreement on the appraised value, the County chose to accept the Air Force appraisal at \$7,933,750 as the starting point for negotiations regarding repayment terms.

On the basis of their interpretation of the Pryor Amendment and DoD's Interim Rule of April 1994, County representatives initially proposed to the Air Force a cash flow model based on the reuse plan. The model projected absorption rates for property sales and leasing of buildings, and identified the associated expenses with implementing the reuse plan. The model showed that, given the level of the investment requirements, the property had a zero value. According to Robert Leonard, director of Military Base Conversion at Sacramento County, the majority of the buildings on the EDC property had very little market value because of the age, the type of construction and the environmental condition, with the presence of asbestos. On the basis of this cash flow model, the County proposed to the Air Force a 15-year purchase agreement where the County would make

⁴⁰ Sources: Ibid.

the infrastructure and building demolition investment consistent with the reuse plan, and would pay surplus proceeds to the Air Force. The revenue-sharing model proposed by the LRA was inspired by the guideline in the April 1994 rule that recommended a 60/40 split of profits. According to Rob Leonard, this “performance-based” approach initially received a very positive response from the Air Force. Some discussions followed, focusing on the definition of terms: gross versus net revenues, allowable project expenses, etc. The county reports that these discussions lasted for a year.

In the meantime, the Air Force had the property appraised through the General Services Administration. The appraisal, according to Rob Leonard, “put a marker on the table in the eyes of some of the Air Force people.” From that point, the County reported that the Air Force expected to obtain a payment based on the appraised value for the EDC property. The County strongly disagreed with this approach. As Rob Leonard explained,

“Our perspective was that the property had zero value, and value would be generated by the reuse and corresponding reinvestment. That’s what is going to create value here, not just an appraiser coming in and saying this is what it is worth.”

Derence Fivehouse who was involved in the EDC negotiations on the Air Force side indicated that:

“We felt a need to put a value on the property, and that the way we structured the financing would take care of any over valuation that might exist. If the payments are going to be spread out in time, that is going to drive whatever the value is.”

The approaches taken by the LRA and the Air Force differed tremendously. On the one hand, the County advocated for an approach that did not establish a value on the outset, but was based on the value created by future development of the property. On the other hand, the LRA indicated that the Air Force insisted on a payment based on the value defined by the GSA appraisal. Eventually, the model proposed by the LRA was abandoned in favor of a fixed payment formula favored by the Air Force. Derence Fivehouse explained that no agreement could be reached on a profit-sharing arrangement which would have been difficult to implement anyway:

“Our approach is a little simpler and has an element of certainty in it. Because how do you work out the details of profit sharing? We did not have much experience in this, and I don’t think that any of them had experience in it.”

Rob Leonard explained that after a year of negotiations where no progress was made, the county wanted to see the deal done, and changed its position accordingly in order to complete the transaction.

According to Derence Fivehouse, the major disagreement with the LRAs was about price. As he recalled,

“There was a big difference in the valuation we placed on the property. We had an appraisal done, and they had as well. And we had a number that we thought was appropriate, and they had one that they thought was appropriate and was half of ours. It’s hard to reconcile that. There was a lot of time spent finding out why we were so far apart. Finally, it became clear to everybody that we were not going to be able to resolve the differences. So we had to come up with a way to reach some kind of compromise.”

Asked why he thought there was such difference in values, Derence Fivehouse explained that:

“The whole process relies on professional judgements made by appraisers. You are trying to predict the price of a piece of property. You don’t have any models you can look to. It’s not like a hotel. You are doing incredible speculation. You get people optimistic about the economy, and people pessimistic about it. A lot of professional judgement, and a lot of room for misjudgment. Sometimes the degree to which we are apart is surprising.”

This situation is reminiscent of the disagreements between the Air Force and the IVDA over the assumptions used to value the Norton property. Again, the County of Sacramento and the military department seemed to be worlds apart. The stalemate was resolved in the same manner as at Norton: County representatives accepted the Air Force’s price for the property.

One of the reasons why Sacramento County accepted the Air Force’s price is the frustration experienced by the LRA with the length of the negotiations and the lack of

continuity in the Air Force representation. The negotiations proved to be costly to the County, as Rob Leonard noted:

“It was a little expensive for us because we had consultants working with us. (...) We would get new attorneys and a new program manager come at us with a whole different set of questions (...) It was an education process (...) starting from scratch each time with different folks.”

The County recognized that the asking price was a non-negotiable item needed by the Air Force to have a defensible deal. Rob Leonard chose to work with this number, rather than challenging it, and achieve three goals: reduce the purchase price, introduce favorable terms and defer payments for as long as possible. This strategy allowed the County to break the stalemate and ultimately negotiate a satisfying deal. At this point, the negotiations were expedited in three days.

The LRA was able to get the Air Force agree to job discounts that would reduce the purchase price. Under this arrangement, the consideration price of \$7,933,750 could be discounted by \$2,000 for each new job created on the EDC property that qualified for the County’s job incentive program, up to a maximum of \$1,650 jobs or a total of \$3.3 million off the purchase price. In order to convince the Air Force, Rob Leonard showed that this was a pre-existing economic development policy that the County had already in place to provide incentives to businesses that create jobs within the county. Leonard noted that the final deal

“represents a significant progress in their [the Air Force] understanding of what it takes to help a community, put a deal together while at the same time achieving their requirement as it relates to some return to the Federal government (...) I think that it came together okay, but how we got there was just quite a journey.”

By contrast, there was no disagreement over price and valuation for the EDC property at Myrtle Beach Air Force Base. According to Thomas Styers, Executive Director of the Myrtle Beach Air Base Redevelopment Authority, the Air Force did not communicate the appraised value for the EDC. As a result, the LRA made several offers until the Air Force accepted a number that was equal or exceeded the appraised value. Thomas Styers

indicated that the LRA started with a low price that was not accepted by the Air Force. John Corradetti, program manager at the Air Force Base Conversion Agency, was involved in the negotiations of the EDC at Myrtle Beach AFB. As he explained,

“The appraisal value is what we had to work with and from. That’s what the guidance tells us to do. When the community made their first offer, we explained it was unacceptable, we explained why, without telling them exactly what it was.”

Ultimately, the two parties found agreement on a price of \$8.5 million. However Styers said that this number was one million lower than the maximum price that the Redevelopment Authority was willing to pay the Air Force for the EDC property. The negotiations over the price and terms lasted for two days. As Thomas Styers recalled,

“Although we knew from the business plan a price that we could not exceed, when we got into the negotiations, we found that there was some margin between the number that they were talking about at the Air Force and our number.”

In addition, the LRA did not challenge the GSA appraisal, and Thomas Styers believed that the appraiser took the improvements and the condition of some of the buildings into consideration. There was no confrontation on those issues, unlike at Norton and Mather.

At Myrtle Beach, a meeting between the Air Force representatives, the GSA-contracted appraiser and members from the LRA was organized so that everyone would have the opportunity to give input and raise concerns on valuation issues.

Rob Leonard who is currently involved in negotiations with the Air Force for an Economic Development Conveyance at McClellan Air Force Base also reported a smoother process regarding the valuation process:

“There was much more openness between us and the Air Force in this negotiation than there was at Mather in terms of sharing information, sharing analyses. Our consultants and their consultants talked on a regular basis and developed some joint models on the project. That was something that didn’t happen at Mather.”

Similarly, at Kelly Air Force Base, Jerry Turner, a consultant from KPMG hired by the Greater Kelly Development Corporation to negotiate the EDC with the Air Force,

involved the Air Force as early as possible in the preparation of the business plan and in the discussion of the valuation assumptions, an exchange that is encouraged in the Base Reuse Implementation Manual guidelines for EDCs as a way of promoting cooperation between the military departments and the local communities.

Relationships with the Air Force

Building trust and common goals

At Mather, Rob Leonard indicated that initially, the County and the Air Force were not pursuing the same goals for the EDC transaction:

“Our goals were to implement our reuse plan, attract businesses and create jobs. The Air Force’s goal was to maximize the return to the Federal Government, even to the point where it was at the cost of job creation.”

There was a lack of trust between the parties as reflected by the fact that on two occasions, the County reported that there had been some disconnects between the EDC deal that they had accepted and the agreement that was presented to the Air Force leadership. Leonard also added that the EDC process at Mather had been an evolutionary one, and that the Air Force leadership became “much more understanding of what it takes to convert a base and what it takes to create jobs in base closure communities.”

At Myrtle Beach AFB, Thomas Styers believed that the Air Force and the local community pursued the same goals from the beginning. “I believe very strongly that the Air Force has been very good to us, very fair and very reasonable,” explained Thomas Styers who is a retired Air Force Colonel and a former Base Commander. According to Styers, the Air Force’s goal was to get the base off the Federal Government’s real estate properties in order to stop spending money on Myrtle Beach AFB that could be better used on active duty bases. Recognizing that both the Air Force and the local communities shared the same goals was, in Styers’ view, key to effective and successful EDC negotiations. He explained:

“Our strategy was simply to recognize that we wanted the closure and the Air Force wanted the closure, and it was important to both of us.”

On the Air Force side, John Corradetti indicated that the military service’s goal was to transfer property in order to defray the annual maintenance costs. He also mentioned that the goal was to provide property to the community in such a way that they could create jobs.

The military background of the LRA’s executive director certainly contributed to fostering trust between the two parties. In addition, being a former Air Force employee, Thomas Styers better understood the constraints inherent to the military bureaucracy and integrated them in his negotiating strategy. For example, Styers recognized that the Air Force’s flexibility is bounded by the service’s obligation to report to the public:

“From their position, they have to defend whatever they do to the public, to the Congress, to the Assistant Secretary of the Air Force, to the Department of Defense. They are not going to do things that they can’t defend.”

According to Styers, some “communities expect too much and are demanding too much and they are not being flexible enough.” Styers adopted a different strategy. He was willing to work around the Air Force’s set of constraints and find alternative ways of achieving the local community’s objectives for the EDC. As he explained,

“I found that when you got an answer you didn’t want, you would try to find another question that would give you the right answer. You just try to work around. “

The willingness of the LRA to cooperate with the Air Force was appreciated by the military service’s representatives who described members of the Myrtle Beach Air Base Redevelopment Authority as “real developers and entrepreneurs” as opposed to other LRAs which are not, in their view, operated by real businessmen. Air Force representatives were also sensitive to the fact that the LRA at Myrtle Beach did not argue over price. As Ray Bourgeois, Assistant General Counsel at the Air Force Base Conversion Agency, indicated:

“They came back with a very decent proposal. They were not trying to get something for nothing and were willing to pay. It did not take us long to finalize.”

At Mather, a similar recognition of the military service’s constraints helped get things moving again, and contributed to smoothing out the EDC negotiations. According to Rob Leonard,

“A milestone for us was just acknowledging the purchase price and then forming our strategy around appropriate discounts and terms for the EDC, as opposed to arguing with them on the appraisal itself. And then coming together with them with a defensible deal, recognizing that they’ve got a job to do. They’ve got people they have to answer to for this transaction.”

Exerting pressure

During the course of the EDC negotiations at Mather, the County felt the need to jump the Air Force hierarchy and deal directly with the highest levels of authority in order to solve the problems. Typically, if County members could not work it out directly with the Air Force Base Conversion Agency program manager, they would elevate the issue to the director of the Agency. If that did not bring resolution, then the County would just go up the ladder to the Secretary and the Under Secretary of the Air Force. “We said we only want to deal with people that are empowered to make decisions related to this transaction. We don’t want to spend time with people that don’t have authority to make decisions,” Rob Leonard recalled. The Under Secretary responded to the community’s request by bringing in Jim Boatright, the former Deputy Secretary of the Air Force for Installations, out of retirement to sit down with the County and put the deal together. This intervention proved to be effective as from that point, the EDC transaction could be expedited in three days. Some congressional calls were also made to the Pentagon, especially when the County felt that the Air Force made some unilateral changes to the EDC terms and conditions. Political pressure was also needed to resolve problems with the Air Force and speed up the process at Lowry where an EDC was approved in July 1995.

Myrtle Beach Air Base Redevelopment Authority members, by contrast, exclusively dealt with the Air Force representatives they were supposed to deal with. Thomas Styers

is actually not convinced that appealing to congressional delegations in order to solve local problems with the Air Force is an effective strategy. In his opinion, all it may achieve is to break the local communication between the parties and even distort the issues. As he explained:

“I feel that it is a wiser move for the communities to continue to work with the Air Force, and if they communicate, work with the Air Force, they don’t need the Congressman (...) We never got our congressman involved in the EDC because we felt that the Air Force was fair with us, was working with us.”

Different interpretations of the rules

At Mather, the Air Force officials who dealt with the County changed several times over the one-year negotiation period. These changes had one important implication. According to Rob Leonard, there was some inconsistency in the interpretation of the rules from one person to another. For example, the County indicated that the initial response to the cash flow model was very positive. As Rob Leonard recalled, “it was a model that the Air Force took on tour and talked to other communities about using.” Later on, however, the approach was not endorsed by the military department. As Rob Leonard noted,

“We weren’t making any progress, and it was frustrating. We ended up dealing with multiple Air Force negotiators, dealing with different program managers and different attorneys. And each one brought a different philosophy and a different perspective on how they thought the deal ought to work.”

Unlike Norton, the Mather EDC negotiations started approximately at the same time the DoD’s Final Rule for EDC was published in the Federal Register in July 1995. However, Rob Leonard felt that early on, the Air Force was “too flexible to the point where they didn’t really know what they wanted.” He reflected on the possible reasons why he was not able to ultimately convince the Air Force of adopting his performance-based model:

“Since we were one of the first, the Air Force was really hesitant. Nobody really wanted to make a decision or a commitment, or sign one of these deals. They were concerned about precedent (...) My feeling was it was a sort of radical concept that nobody wanted to sign on to within the Air Force or the Department of Defense at that point in time.”

One possible interpretation of the perceived lack of clarity over what the rules should be may reside in a lag between the definition of the final EDC policies and the implementation itself reflected in the EDC transactions.

In contrast to Norton and Mather, there was no ambiguity related to the interpretation of the rules during the EDC negotiations at Myrtle Beach. Whereas at Mather and Norton, the military service had still little experience with the practical application of the regulations, Air Force officials had gained a better knowledge of the rules according to the LRA, and were able to rely on it at the negotiations at Myrtle Beach, in a process that was described as being open and frank by the LRA Executive Director. At Mather, the feeling of imprecision and inconsistency added to the frustration, whereas at Myrtle Beach, the reliance of the service on the regulations contributed to build trust between the two parties. As Thomas Styers recalled,

“The Air Force would say I am sorry, the regulation does not allow me to share that with you, to do that. They were always up-front and willing to get out the regulation to show me, let it read for myself (...) They were extremely helpful. Because we had never done this before, they have done ten or twenty now.”

EDC implementation requirements

No excess profits clauses were imposed either at Mather AFB or Myrtle Beach AFB. As a matter of fact, during the EDC negotiations at Lowry AFB, Air Force officials realized that the imposition of such a clause would act as a disincentive to the redevelopment.

In the same way as the IVDA has recently asked for an extension of the term for the payment of the debt owed to the Air Force, the County of Sacramento has also requested a 10-year extension in November 1997. The reason for this extension, Rob Leonard explained, is the environmental condition that was not present at the time the transaction was consummated. The groundwater problem has expanded significantly and affects the marketability of the property. The Air Force has not accepted the County's request yet.

Terms were originally fixed at a maximum of 15 years on the EDC transactions. However, in addition to the bases that are now attempting to renegotiate extensions, there is some evidence that some transactions recently approved or currently negotiated have incorporated a larger time horizon based on the redevelopment experiences. For example, at Kelly Air Force Base, there is no balloon payment due and the term fixed by the Air Force for its participation in gross rental revenues is 40 years. Similarly, Rob Leonard indicated that the discussions with the Air Force regarding McClellan revolved around a term of over 40 years. “They are not as rigid in their policies, they are much more receptive to what the individual markets and communities need,” he commented.

Timing is still a sensitive issue and was one of the areas Thomas Styers said he was not able to convince the Air Force to change its position for the EDC at Myrtle Beach. Styers indicated that he initially wanted the payment on the \$8.5 million to be deferred for five years. The Air Force refused and agreed to interest only payments for a duration of three years, with principal payments beginning Year 4.

In spite of these minor disagreements, the approach of the Air Force toward the EDC negotiations has been described by the LRA as being straightforward and flexible from the outset. “The Air Force will not break the law, but where there is flexibility, where they can reach an agreement that they can defend, it has been my experience that they will go with it,” Thomas Styers said. An example of the Air Force’s flexibility is related to the definition of release prices.

At Norton, one of the issues that came up and proved to be an obstacle to the redevelopment of the EDC property was related to the release prices. At Myrtle Beach AFB, an early approach taken by the Air Force was that leasing a building established a release price. Thomas Styers was able to convince Air Force representatives to change their position, “with the clear understanding that we are not going to sit here and let long-term leases on the property just so we get to keep the money and escape paying the release prices,” Styers said. As a result, the LRA is not obligated to share any of the lease

revenue with the Air Force. According to Thomas Styers, about \$30,000 are collected by the LRA in leases every month.

In addition, the Air Force established release prices according to a formula based on the size of the building and the land that went with the buildings. The release prices reflect the total \$8.5 million. However some of the buildings located on the former base, including ten dormitories, were obsolete, contained asbestos and had no value. The LRA was able to convince the Air Force to exclude the buildings that had no value from the release price. "The Air Force was very open and very easy to work with in determining that," Thomas Styers commented. "If we said that a building is obsolete, has no further value, they pretty much accepted that, they did not place a release price on that building, and moved on to the next one."

When the LRA sells a building that has a release price attached to it, it is required to return the amount to the Air Force. However the LRA is allowed to keep any amount in excess of the release prices set by the Air Force. In addition, the Air Force showed greater flexibility in the size of the parcels to be released to the private sector, as a function of the needs of potential buyers. So far, six buildings have been sold to various companies, including a television network station, a restaurant owner, and a beverages distributor. Thomas Styers indicated that the LRA has been able to sell buildings for more than the release prices, thus providing additional revenues to the LRA. A formula that is particularly beneficiary to the redevelopment of the base, as he explained:

"When we go back and look at the 40 buildings that have release prices and the 377 acres that are unimproved and we look at the release prices associated with that and compare with the prices that we are able to sell it for, we should have no problem in redeveloping the base. The prices are very competitive locally, which allows us not only to repay the debt to the Air Force, but to collect capital that we can use to improve the infrastructure."

The Myrtle Beach Air Base Redevelopment Authority is planning to build a road and demolish some buildings during the summer 1998. These infrastructure improvements

will be partly financed by the sales margin between the release and the sales prices. Also, the Air Force has agreed to subordinate its position to construction loans as needed.

Summary

The study of the EDC negotiations at Mather AFB and Myrtle Beach AFB provides a contrasted picture. These two cases seem to indicate both a greater flexibility on the part of the Air Force and some resistance to change and continued conflicts. For example, at Mather, the service and the LRA argued over valuation and price for a whole year, reaching the point where no agreement could be found. However, the Air Force was eventually able to provide job discounts that can reduce the purchase price of the EDC by over 40%, and the LRA was satisfied with the final outcome of the deal. At Myrtle Beach, the negotiations went very fast, and was described by both parties as cooperative and fair.

The three cases altogether described in Chapters three and four show that there is an apparent paradox between on the one hand, the Air Force's greater flexibility and responsiveness to the needs of local communities and on the other hand, some persistent conflicts between LRAs and the Air Force that illustrate the military department's resistance to change in some areas. How can this paradox be explained? The next chapter summarizes the changes that took place in the implementation of Economic Development Conveyances by the Air Force, and provides some explanations for the changes.

V. ANALYSIS: UNDERSTANDING THE NATURE OF THE CHANGES IN ECONOMIC DEVELOPMENT CONVEYANCES

1. Description of the changes in the implementation of the Economic Development Conveyances

Between the first Economic Development Conveyance agreement at Norton Air Force Base in 1994 and the most recent transactions completed in 1998, there have been some changes in the implementation of this new transfer mechanism intended to spur job creation and economic recovery on closed military bases. As indicated in the first chapter, researchers usually distinguish between two types of changes: discontinuous change (or reorientation) and incremental change. Both categories apply to the case of the Air Force and the implementation of the Economic Development Conveyance. The development of the EDC rules and the early phase of the implementation can be characterized as a reorientation, followed by a period of incremental change and adaptation.

From a high value base sale approach to a commitment to job creation: a reorientation in the Department of Defense's objectives

The initial interpretation of the Pryor amendment by the Department of Defense, as reflected in the first Interim Final Rule on EDCs published in April 1994 privileged a high value property sale approach. The “market test” allowed the DoD to advertise base properties for sale to the private sector and then sell the readily marketable properties without local zoning and without provision of future infrastructure. This approach could be seen in the first EDC transaction at Norton AFB where the Inland Valley Development Agency believed that the Air Force’s priority was to maximize return. At the time, the final rule had not been finalized yet.

However, the market test and the property sale approach were abandoned in the amended Final Rule in October 1994, and greater emphasis was placed on the community reuse plan and the cooperation between the military departments and the LRAs. The change in the rule represented a dramatic shift from a high value property sale approach to a commitment to working with local communities to spur economic development and job creation. This shift can be characterized as a “reorientation”, in the sense described by Tushman and Romanelli.⁴¹ A fundamental transformation in the Department of Defense’s strategy occurred with the elimination of the market test and the direct sale of properties to the private sector, only over a few months, between the publication of the first rule in April 94 and the issuance of the amendment in October 1994.

The penetration of the DoD’s policy reorientation within the three military departments may have varied, and a lag between the transformation of the policy objectives and the implementation could be observed, at least from the perspective of the local communities and the Office of Economic Adjustment. Even though the intent of the rule was to strike a balance between compensation to the federal government and the need for the EDC to promote job creation, the philosophy of the first Interim Final Rule may have prevailed for a while in the implementation of the EDC, with the military departments placing a greater emphasis on revenue maximization. For example, the EDC negotiations at Mather Air Force Base started right after the final DoD’s rule was published in the Federal Register in July 1995. Yet the LRA, Sacramento County, indicated that the Air Force was initially profit-driven in the negotiation of the EDC and sought to maximize return. Some indication of a discrepancy between the policy reorientation and the military services’ implementation of the EDC is also provided by Pat O’Brien, Project Manager at the Office of Economic Adjustment, particularly for the Navy:

“When the Navy got involved in some of their programs for EDCs, they tended to second-guess the actions of their field divisions. So that the field divisions went out and valued the property, and then the headquarters people turned around and said well, we don’t like that value and then in essence, opened back up the negotiations (...) In this particular case, there were some folks within the Navy

⁴¹ Tushman Michael, and Elaine Romanelli. “Organizational Evolution: A Metamorphosis Model of Convergence and Reorientation.” Research in Organizational Behavior, Vol. 7, 1985.

that believed that the priorities on EDC disposal were not just tied to job creation but should be tied to maximizing value out of a property.”

Even though interviewed Air Force officials believe there has been a change in their approach to EDC transactions, they do not directly recognize that their objectives have shifted from maximizing returns on the properties to facilitating rapid disposal and job creation. They say that from the beginning, it was clear to them that the goal of the EDC program was to promote job creation. When asked if he believed that the Inland Valley Development Agency and the Air Force were trying to achieve the same goals for the EDC, Derence Fivehouse, Acting Chief Counsel at the legal division of the Air Force Base Conversion Agency, replied:

“To some extent yes. We want to see successful economic development. We want to achieve this in the least painful way for both parties. That is a goal I think both parties share. We were not out to get as much as we could from the property and the community be damned. This was not, and is not, our perspective. We got new authority with new directions from Congress about what they wanted to achieve. The President came out with his five point plan. He set the agenda for the services. Job creation is the catch phrase for the program.”

Air Force Base Conversion Agency Program Manager John Corradetti characterizes the change within the service as a shift from a conservative approach to a more liberal one. Early on, the Air Force was unfamiliar with how the EDC mechanism would work. As a result, the service used the first EDC negotiations at Norton as a test for the implementation of this new transfer tool. The lack of guidance and experience with this new mechanism can explain why the Air Force’s approach towards EDCs was initially “conservative.” The service has been hesitant in the beginning on how to proceed. As John Corradetti explained,

“When the Air Force started the EDC process, it was brand new to the government. It appears to me that we took a very conservative approach.”

This approach was applied to the first EDC at Norton, as recognized by John Corradetti:

“It seems that the Air Force has taken a harder approach to get the absolutely best, most, aggressive fair market value that it could.”

However this approach later changed, as John Corradetti observed:

“Two years later, we are a little bit more liberal than maybe we started out with because people understand the process.”

Even though Air Force representatives themselves do not directly recognize a shift in their goals, the LRAs’ perceptions of the service’s goals have changed. On the basis of the Air Force bases studied in this research, there is evidence that the LRAs now believe that the Air Force pursues the same goals as the local communities. While at the beginning, some LRAs indicated that the Air Force’s goal was to maximize return on the sale of the base properties, which conflicted with the local community’s goal to generate jobs, LRAs that have returned to the negotiating table--such as the Norton LRA--or bases that started negotiating EDCs in the most recent period, such as Myrtle Beach AFB, believe that the military service now pursues the same goals as the local community. The overall change in the Air Force’s attitude toward the EDC transactions was noted by the Inland Valley Development Agency at Norton which measured the evolution between the first EDC agreement and the subsequent amendments. Executive Director Bill Bopf observed:

“The Air Force feels there is merit in working with the communities to convert these bases. They are starting to talk about the successes of the bases and share pride in those successes. I believe that they are pleased now when they can cite a success.”

A continued inflexibility

Beyond the fundamental reorientation in policy objectives, are there other changes in the way the Air Force implements Economic Development Conveyances? The research supports the conclusion that there has been a mix of both greater flexibility and continued inflexibility. The following paragraphs discuss two examples of the Air Force’s lack of flexibility.

- **The Air Force negotiates on payment terms, not on price.** The legislation, regulations, and DoD guidance allow for flexibility in the price charged to LRAs. As

stated in the Base Reuse Implementation Manual, the military departments have authority to enter into one of two types of agreements in reviewing an Economic Development Conveyance application:

- “Consideration within the estimated range of present fair market value, as determined by the Secretary of the Military Department. The Military Department can be flexible about the terms and conditions of payment, and can provide financing on the property. The payment can be in cash or in kind, and can be paid at time of transfer or at a time in the future. The Military Departments have the flexibility to enter into agreements that specify the form, amount and timing of consideration and ensure that consideration is within the estimated range of fair market value at the time of application.
- Consideration below the estimated range of fair market value, where proper justification is provided. If the Secretary of the Military Department finds a discount necessary to foster local economic redevelopment and job creation, the amount of consideration can be below the estimated range of fair market value. Again, the terms and conditions of payment may be flexible to accommodate reasonable redevelopment requirements and will be negotiated between the Military Department and the LRA.”⁴²

In practice, the services have generally opted for offering terms favorable to the LRAs, as opposed to agreeing to price reductions from fair market value. Most of the payment terms accepted by the military departments have been without interest. As Michael Ruzila, who is a Special Assistant for Real Estate at the Air Force Base Conversion Agency and participates in all the EDC negotiations, explained:

“I try to do the discounts all in the financing terms. I try to keep it that way. If you start discounting price, how do you account for that? I try to avoid that.”

Ruzila added that “A dollar in financial help is worth more than a dollar price cut.” This approach is often not obvious to local communities, and Michael Ruzila indicated he has to explain it to LRAs. “Communities start thinking how to cut the price as opposed to how can we accelerate the wealth creation,” he said. On a few occasions, the Air Force agreed to price discounts. The EDC at Mather Air Force Base is an example: the Air Force agreed to reduce the purchase price by \$2,000 for each new job created on the EDC property that qualifies for the County’s job incentive program, up to a maximum of 1,650

⁴² Department of Defense. Base Reuse Implementation Manual. Washington, DC, December 1997.

qualifying jobs, a total discount of \$3.3 million off the \$7.9 million purchase price. Overall, the Air Force rarely negotiates over price. For example, the price negotiations at Myrtle Beach Air Force Base show that the Air Force waits for the LRA to make several offers until the LRA reaches the price that the Air Force has in mind. As John Corradetti who was involved in the negotiations at Myrtle Beach recalled,

“Initially, the community offered us something less than we felt we were required to obtain, and through discussion during that day and a half, we came to an agreement on the price (...) There was actually a dollar amount that we were required not to go under than.”

Two interrelated explanations can be offered for the Air Force’s lack of flexibility over the price, in spite of the price discounts allowed in the regulations.

The first interpretation is related to the Air Force’s concern that the EDC transactions may be subject to close review by oversight agencies. Unlike negotiated sales of closed military facilities, Economic Development Conveyances are not subject to congressional oversight. However, it seems that to a certain extent, the influence of the old regulations lingers in the military bureaucracy. Under the Federal Property and Administrative Services Act of 1949 (the Federal Property Act) which regulates negotiated sales, the Congressional committees with oversight responsibility “regularly disapproved complex, negotiated sale real estate transfer to communities.”⁴³ Members of the oversight committees were very critical of the military departments’ handling of appraisals. Even though the EDC Authority eliminates some of the pressure and exempts the military departments from obtaining congressional approval for EDCs, the services anticipate a congressional review some time down the road. As a result, they are reluctant to take risks and fear that they may be criticized at some point for giving away properties paid for by the taxpayers. Robert Hertzfeld, one of the authors of the EDC guidelines, recognized these constraints inherent to a public bureaucracy:

“People in government are afraid of taking risks. Those people that go in the field fear pressures. If they negotiate a price for \$1 million, and then a community sells

⁴³ Lynch, John E., Anita Morrison and George R. Schlossberg. “Economic Development Conveyances.” *Commentary*, Winter 1997.

it for \$2 million, there will be a congressional inspection (...) and seriously, they are afraid of being indicted. There is such fear in the system. And there is never any incentive for taking risks. So when we say in the manual, take risks, they laugh at us.”

The fear of investigation is a powerful obstacle to innovation and change in the public sector. Osborne and Plastrik have noted that government organizations “undergo hostile scrutiny from legislators, lobbyists, interest groups, and the media.”⁴⁴ As a result, public sector employees will take few risks as they are afraid to be blamed if things go wrong. This interpretation can be applied in the context of a new regulation such as the Economic Development Conveyance, all the more as it involves some balancing between a fair and reasonable compensation to the federal government and the need to spur job creation and local economic recovery. John Corradetti recognized the role of public scrutiny in the approach the Air Force initially took with EDCs:

“A lot of what we do is reviewed by the Air Force audit agency and the GAO, so we are never quite sure where they are going to go so we were very conservative in the beginning.”

This context can also explain why the service insists on getting the full fair market value for EDC properties, at least for the public records, even if in practice, the price does not always have much significance given the favorable payment terms granted to local communities.

The second reason that may account for the persistent lack of flexibility of the Air Force on the purchase price of EDC properties is related to the first one. The military department does not only serve one “client”, the base closure communities. It also has to take the needs of the taxpayers into consideration. The Base Reuse Implementation manual guidelines stress that the military departments should serve both constituencies in the EDC negotiations:

“These negotiations should be fair and reasonable to both parties and strike a balance between compensation to the Federal taxpayer and the need for the EDC to spur redevelopment and job creation.”

⁴⁴ Osborne, David, and Peter Plastrik. Banishing Bureaucracy. Addison-Wesley, 1997.

The Air Force's obligation to the federal taxpayer can explain why the LRAs often felt that the service did not share the local community's goals and sought to achieve maximum return on the EDC property. The lack of flexibility on the purchase price combined with flexible payment terms may be interpreted as an attempt on the part of the Air Force to reach a compromise and resolve the tension between two goals and two customers. A process which is not easy, as Darence Fivehouse explained,

“The goal here is to make this a success without entirely foregoing any interest the government might have in this property. How do you achieve that? It is not an easy answer. It requires communication and study.”

As a result, the Air Force remains very attached to the price even though its significance may be symbolic in light of the favorable payment terms. Even though price discounts are not offered up-front, discounted conveyances are made in practice through 0% interest financing.

The Air Force's obligations towards two constituencies can also explain the approach the service has taken toward appraisals of EDC properties. The DoD guidelines recommend that “the estimated fair market value should be expressed as a range of values based on the intended land uses outlined in the redevelopment plan.” In practice, the Air Force appraisal takes into account both the highest and best use of the property and the intended uses outlined in the LRA's redevelopment plan. Asked why the appraisal is done in this manner, Ray Bourgeois, Assistant General Counsel at the Air Force Base Conversion Agency, indicated that

“Business plans can change. We need to know also what highest and best use is for the property. Because otherwise they may try to beat us and get a low value based on their business plan. We are here to protect the federal taxpayer too. We can't just give away the farm.”

- **The Air Force is reluctant to enter profit-sharing or joint venture arrangements with the LRAs.** The Base Reuse Implementation Manual guidelines define three financing options for Economic Development Conveyances: cash payment at time of

transfer, deferred payment, and participation. Under the participation section of the BRIM, three models are discussed:

- partnership model: the military department would receive its return from cash flow. No specific payment or return would be guaranteed to the Department. This is the highest-risk involvement for the Department, but it also has the highest potential for return because the Department shares in the up-side potential of the development.
- Net profit model: the service receives payment from the residuals of sales or refinancing.
- Syndication model: the LRA may create a Limited Partnership for the purpose of generating cash for the development with no financial repayment schedule. A Limited Partnership consists of a General Partner—the LRA in this case—and Limited Partners who invest for return (cash flow) and tax benefits.

In practice, the military services have been unwilling to enter into partnership agreements with the local communities. Instead, early, fixed payment approaches have been preferred. According to Lynch, Morrison and Schlossberg, “the uncertainty over the property’s market potential absorption rate has not to date been addressed by any military department “participation” in the net future project proceeds.” The authors write that “the military departments generally prefer conventional sales agreement with favorable terms rather than participation clauses which provide the DoD with a share of the project’s future cash flow.”⁴⁵

One of the reasons why the Air Force is unwilling to enter into these type of partnerships is that the service’s employees are unfamiliar with such arrangements and are ill-equipped to deal with these mechanisms which they perceive as more complex to manage. Generally, the Air Force privileges approaches which are considered to be simpler to understand and to handle, such as fixed payment arrangements. In addition, the Air Force Base Conversion Agency does not consider itself as a development agency, and

⁴⁵ Lynch, John E., Anita Morrison and George R. Schlossberg. “Economic Development Conveyances.” Commentary, Winter 1997.

participations would imply a more active involvement in development. As Derence Fivehouse explained,

“We are not comfortable being in the development business. We would rather turn over our obligations to the LRA, agree upon some kind of fixed or easily calculable payment and then rely on them to do the rest of it. We are just trying to keep ourselves as far away from development as we can, and profit sharing involves more than we want to get into.”

Although the Base Reuse Implementation Manual guidelines explicitly encourage partnerships between the LRAs and the military departments, Derence Fivehouse believes that this guideline may work in the private sector but is not entirely appropriate in the context of the federal government:

“People who designed the BRIM were thinking about a broader, more extensive role than the Air Force really wanted to get into as a matter of internal policy. One of the principal authors was a private developer. His ideas may or may not work in the private sector, but were problematic in the Federal sector.”

The Air Force’s attitude toward partnerships with the local communities illustrates the fact that public bureaucracy can change only to a certain extent and that certain actions would violate some organizational norms. Adopting the guidelines on participation may require a transformation of the Air Force’s underlying mental models, which the military service may not be prepared to accomplish. Derence Fivehouse explained:

“It is not that we are unwilling to do it, it is just that it takes an awful lot of learning to be comfortable with those kinds of concepts, when we do not have in-house capabilities to do these things. I don’t know if the person who drafted the BRIM understood his audience. They did not understand what the inherent limitations are in federal property management.”

Both the Air Force’s inflexibility on the purchase price and the persistent reluctance to enter into certain types of agreements with the Local Redevelopment Authorities show that once the initial reorientation on the objectives of the Economic Development Conveyance occurred, the Air Force has established a mental model that has not changed over time. This model has two components. The first one is the Air Force’s desire to obtain the fair market value on each EDC transaction and have this value cast in stone on

public records. The Air Force sticks to one fundamental principle: don't negotiate on price, only on terms. The second component of this model is the adherence of the Air Force to rules that should be made as simple and as understandable as possible for an organization that is not in the development business.

Within this fixed mental model, there is evidence that incremental change has occurred over time in the implementation of Economic Development Conveyances. Different types of changes can be found, in perceptions, policies, relationships, and practices, but all of them are defined as incremental and involve single-loop learning: they do not question the Air Force's existing mental model and the organizational norms built around it. The following paragraphs discuss some of the incremental changes, based on the evidence collected in the research.

The incremental changes

- **Changes in the nature of the relationships between the Air Force and the LRAs**

From the local communities' perspective, the relationships with the military service are perceived to be more cooperative, and some trust has been established. As Bill Bopf recalled,

“There was a time when they [the Air Force] thought that we were going to make a lot of money and they did not want us to, not only because of their pressure but because of pressure on top of them. Now that has matured and people realize that.”

Early on, LRAs often felt the need to appeal to the highest levels of the military authority to accelerate the transactions. Political pressure has been exerted in order to move the process forward. However, in a recent negotiation such as Myrtle Beach AFB, there was no need to elevate issues to higher levels, as the LRA was confident that the transaction could be directly handled with the Air Force employees responsible for completing the EDC, in an atmosphere of trust and cooperation.

One of the key concepts developed in the EDC guidelines is that the military services should work with the local communities. However, EDC negotiations between the LRAs and the Air Force started in an adversarial climate. The LRAs often argue that military properties are worth nothing, and try to get them for free from the federal government. This strategy is well known by the Air Force which integrates it as part of the normal buyer-seller negotiations. "It's always worth zero or negative value. That's normal. We argue," Michael Ruzila indicated. "They put a lot of political pressure on the Air Force. They all start with give it to us for free," he said. This has often created conflicts between the Air Force and the local communities. On the one hand, the LRAs are frustrated with the lack of flexibility of the Air Force, on the other hand, the military service perceives some of the LRAs' requests as being unreasonable and causing delays in the redevelopment of the bases. Some Air Force employees even describe some of the LRAs representatives they had to deal with as "local government bureaucrats." John Corradetti explained:

"Other bases who closed before Myrtle Beach are nowhere close to Myrtle Beach, because they have to bargain for that very last nickel or they want it for free, but in the meantime they are not generating any profit. I don't think those people understood the value of the commodity they would receive."

However, the Air Force has experienced more positive negotiations, at Myrtle Beach AFB for example, which showed the Air Force the benefit of working with the communities. As John Corradetti recalled,

"This community were legitimate, good, honest businessmen. They realized that they had a very good commodity. They were just trying to get the best deal, they were not trying to rob the Air Force blind! I think they negotiated that way. We did not have a very difficult time in any area. Nothing like Mather at Myrtle Beach (...) One key explanation of our success is that we were dealing with business people who had their pulse on the business world"

The fact that the Redevelopment Authority Executive Director was a former Air Force employee may certainly have helped build this trust, but it may also reflect a deeper change in the Air Force's perception of the local communities. As John Corradetti said,

“The lesson learned from Myrtle Beach was a positive one because of the attitude and manner with which that community conducted these proceedings (...)They treat you as a professional as you treat them”

- **Changes in policies**

- The Norton EDC is the only Air Force transaction where an excess profits clause was included.⁴⁶ The Air Force has never imposed an excess profits clause after Norton. As Tim Sabo, the attorney working for the IVDA at Norton, recalled:

“The excess profits clause was non negotiable. We explained to them but we couldn’t get anywhere. So what do we do? You take it and go back and change it. When we came back a year later, it was not an issue anymore. Why within one year did it go from ‘non negotiable’ to ‘not an issue’? Because they understood it! They heard it from me, they heard it from others communities and they realized it didn’t work.”

- Air Force subordination to construction loans is now allowed. According to Derence Fivehouse, this was included for the first time in the EDC transaction for Lowry AFB. This was not provided for in the original EDC agreement at Norton but was later added as part of the amendment.

- **Changes in practices**

- At Norton, the LRA has witnessed an evolution in the Air Force’s understanding of what it takes to redevelop a closed military installation and transfer it into the hands of the private sector. Air Force officials have been more sensitive and responsive to market needs and more willing to revise the EDC agreements in order to make redevelopment work. The more “market-friendly” attitude on the part of the Air Force has been followed by a shift from a rigid approach to the rules to a greater flexibility. At Norton, between the first agreement and the subsequent amendments, what used to be non negotiable became negotiable. For example, in the EDC amendment, the Air Force agreed to partial releases of smaller sized parcels in order

to accommodate private developers' demands. This lesson, learned at Norton was then applied to other EDC transactions. John Corradetti commented on Myrtle Beach AFB:

“ It is not as restrictive as Norton's. That is also part of the growing and maturing about learning how to do those transactions. We do understand why the communities have a hard time selling 300 acres at a time. It is part of the negotiation to come up with an agreed size.”

- Repayment period used to be limited to 15 years. Although the Air Force has not agreed to grant these extensions yet, some communities such as Norton and Mather have initiated discussions with the service on this issue.
- Has the Air Force changed in the way it processes EDC applications? Time is a good measure on whether or not the Air Force has been able to make decisions more quickly on Economic Development Conveyances. The three following graphs show, for each of the military services, the time it takes to complete an EDC. On the X-axis, the bases are represented in chronological order by submission date of an EDC application. The Y-axis shows the number of days between the EDC application submission date and the OSD concurrence date.⁴⁷ As seen on the graph, there is no clear trend--except for the last two EDC transactions-- that it takes less time to complete an Economic Development Conveyance. While some of the transactions have been completed over a very short period of time, others have taken a very long time. In some instances, unusual delays may be attributable to other factors than the Air Force itself. Overall, the variation shows that although the Air Force has completed 14 EDC transactions, the service has not been really able to shorten the time between the EDC application submission date and its approval by OSD.

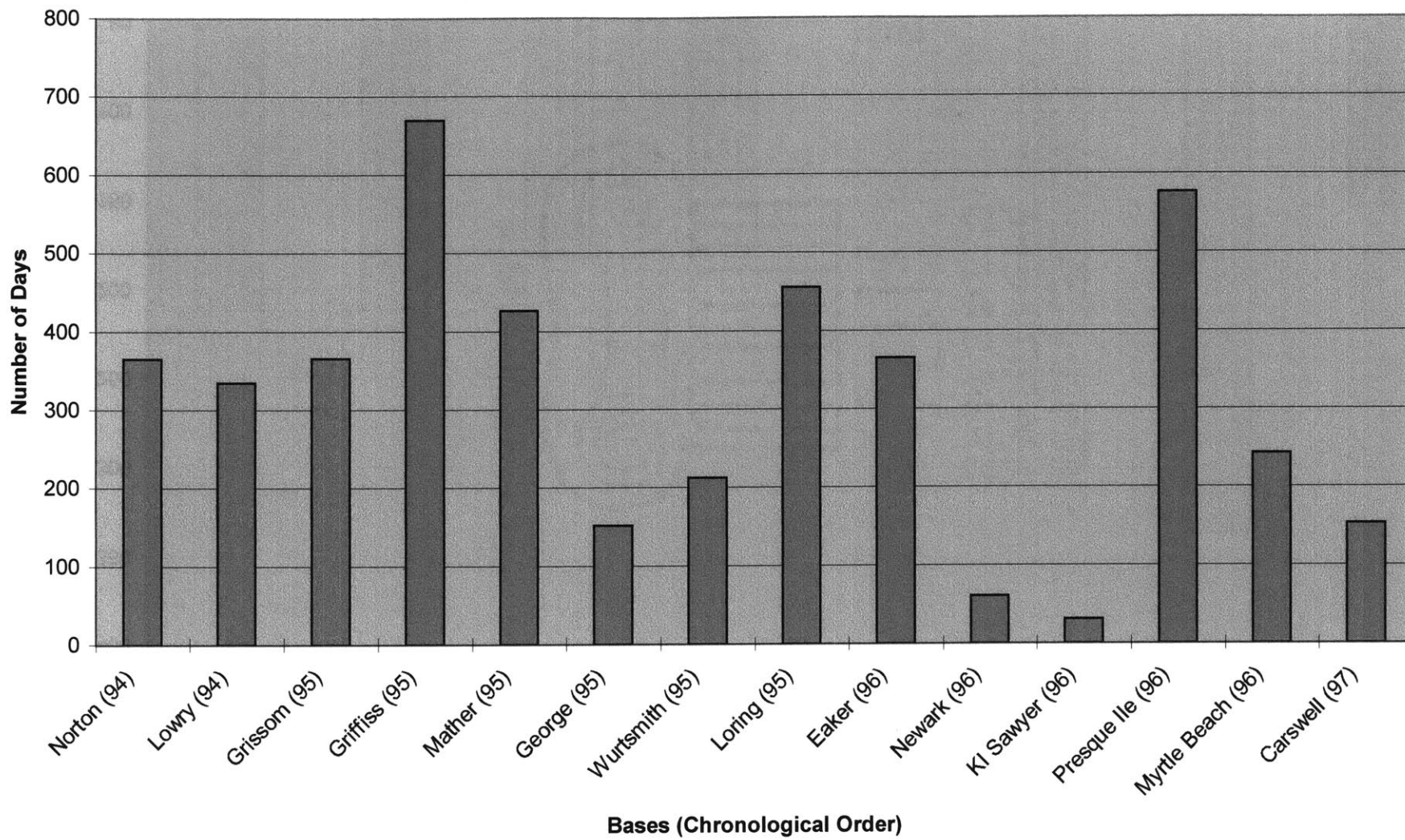
The other two services display the same type of variation in the time it takes to complete an EDC. Some differences can be nevertheless noted. Among the three

⁴⁶ Besides Norton AFB, three other EDC agreements had excess profit provisions: Sacramento Army Depot in 1994, Lexington Army Depot in 1995 and Glenview Naval Air Station in 1996.

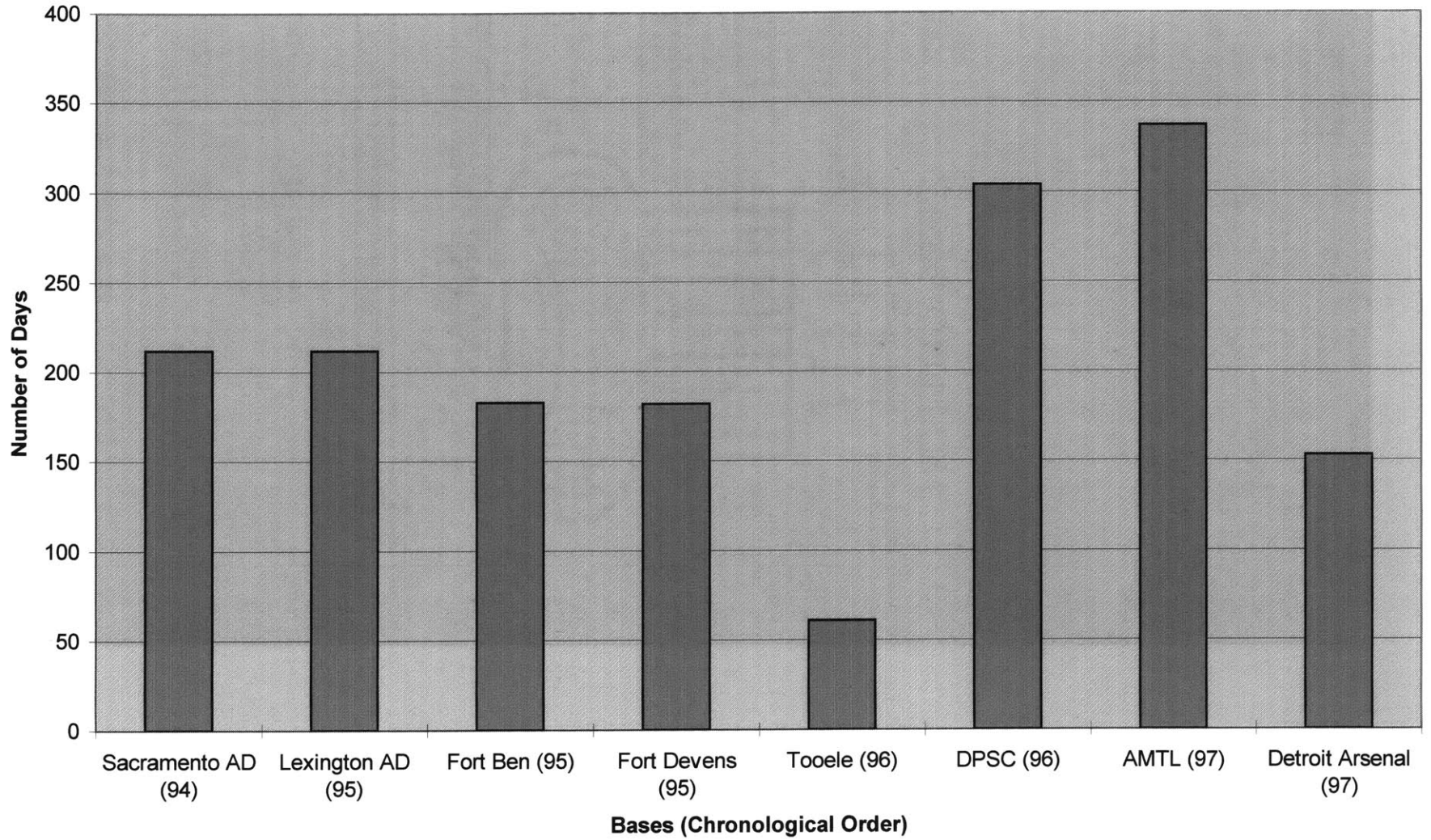
⁴⁷ After an EDC terms and conditions have been finalized between a local community and the military department, the Office of the Secretary of Defense (OSD) reviews the EDC, to ensure consistency with policies.

military departments, EDCs are completed faster on average in the Army than in the other two services. The mean number of days between the EDC application submission date and OSD approval is 206 days for the Army, 222 days for the Navy, and 315 days for the Air Force. The standard deviation is the largest for the Air Force: 186 days, compared to 102 days in the Navy, and 86 days in the Army. In sum, on average, it takes longer to complete an EDC in the Air Force, and there is a large amount of variation.

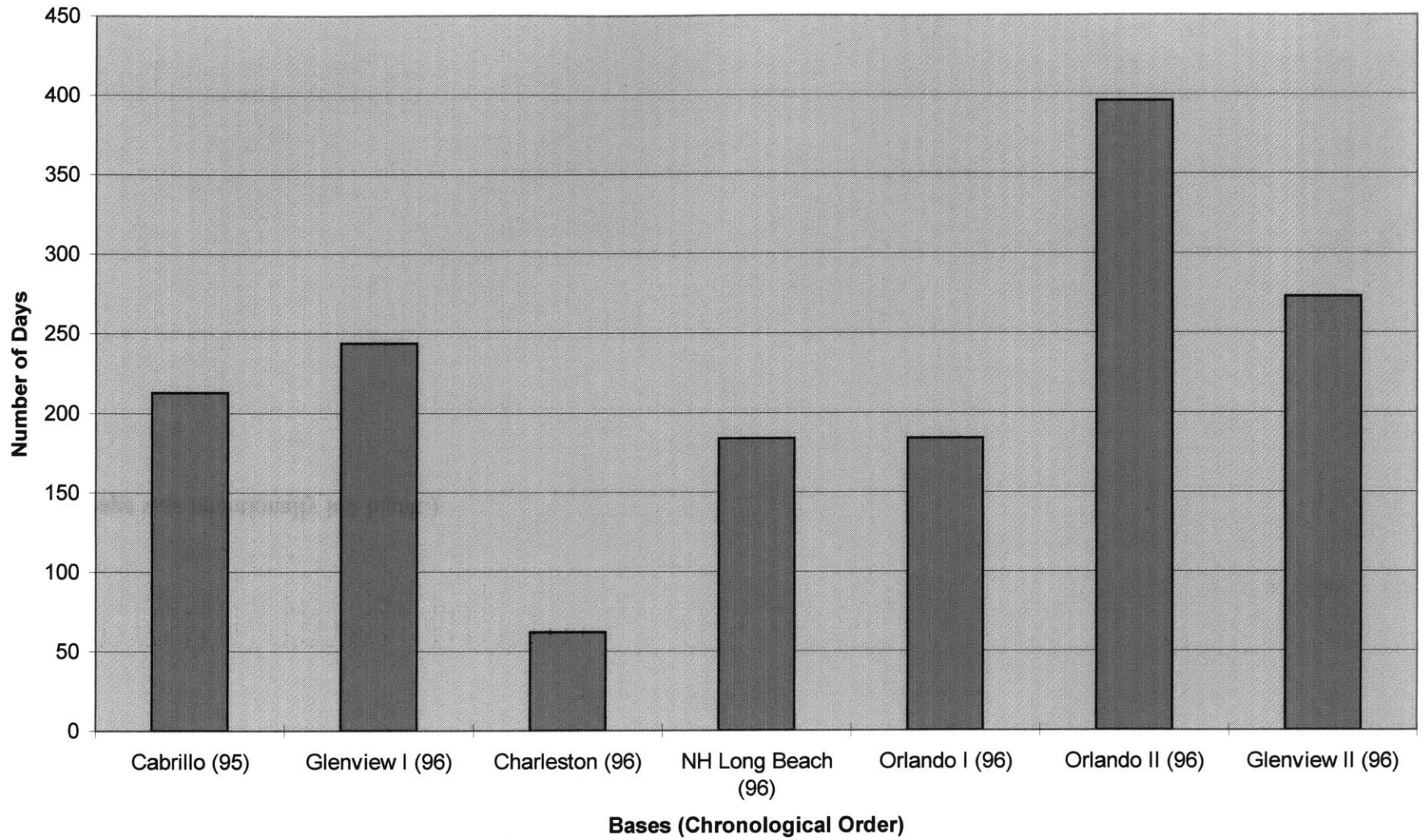
Duration of EDC Processes, Air Force



Duration of EDC Processes, Army



Duration of EDC Processes, Navy



Source for three preceding graphs: Office of Economic Adjustment

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- The EDC guidelines used to recommend that the military departments discussed valuation assumptions with LRAs as early as possible in the process. In practice these preliminary discussions often did not occur.⁴⁸ Even though the revised Base Reuse Implementation Manual has eliminated this recommendation, cooperation and early discussion between the services and the LRAs are still encouraged. Whereas at Mather and Norton, valuation issues have been very conflictual, the consultant who worked with the Greater Kelly Development Corporation for the EDC, involved the Air Force early on in the preparation of the LRA's business plan and the development of the valuation assumptions. At Myrtle Beach AFB, a meeting between the Air Force, the GSA-contracted appraiser and LRAs representatives was organized so that each party would have a chance to give input on the appraisal and express any concerns.

Incremental change within a fixed mental model

There is evidence that there has been some incremental change in the implementation of the EDC by the Air Force. These changes are mainly related to the nature of the relationships between the Air Force and the LRAs, the willingness of the Air Force to reopen completed transactions in order to accommodate development, the incorporation of lessons learned in previous transactions in later EDCs (such as the excess profits clause, the subordination issue, the release of the parcels to the private sector). Some improvements have also been noted in the cooperation between LRAs and the service over valuation.

However, this incremental change does not challenge the existing mental model that guides the Air Force in the implementation of Economic Development Conveyances: the Air Force rarely negotiates on price and is unwilling to enter into partnership or joint venture agreements with the local communities.

⁴⁸ Cubanski, Juliette, Aubrey Fox, Dan Schoenholz, Noelle Simmons, and Scott Smith. Disposal of Military Base Property. The Valuation and Conveyance Process. University of California, Berkeley, May 1997.

The overall changes that occurred in the Air Force's approach to Economic Development Conveyances can be chronologically described as a "reorientation"--or discontinuous change--in the Department of Defense's policy objectives, followed by incremental change, or "convergence." The reorientation can also be characterized as double-loop learning (see figure 3). Incremental changes can be analyzed as single-loop learning: a process by which the Air Force detects and corrects errors through a feedback mechanism, makes adjustments on the basis of the received information, but does not alter the underlying fundamental mental models (figure 2). The Air Force continuously adapts to the market needs in a trial and error process. However the core principles are not questioned.

The two figures presented below elaborate on the basic diagram presented in the introduction, and provide a visual summary of the changes at work in the Air Force's implementation of the Economic Development Conveyance.

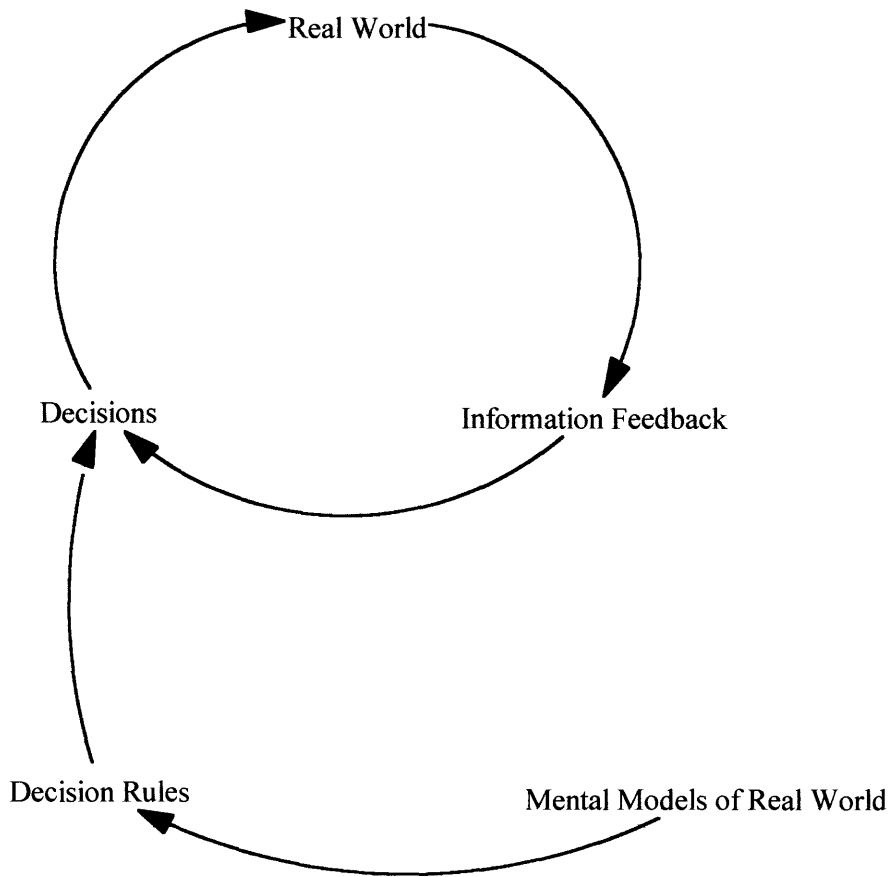


Fig. 2. "Single-loop learning".
 The learning feedback operates in the context of existing decision rules, strategies, culture, and institutions, which are derived from our prevailing mental models.⁴⁹

Source: Sterman, John D. "Learning in and about complex systems." *System Dynamics Review*. Volume 10, Numbers 2-3 Summer-Fall 1994.

⁴⁹ The diagram illustrates the incremental changes in the Air Force's implementation of Economic Development Conveyances.

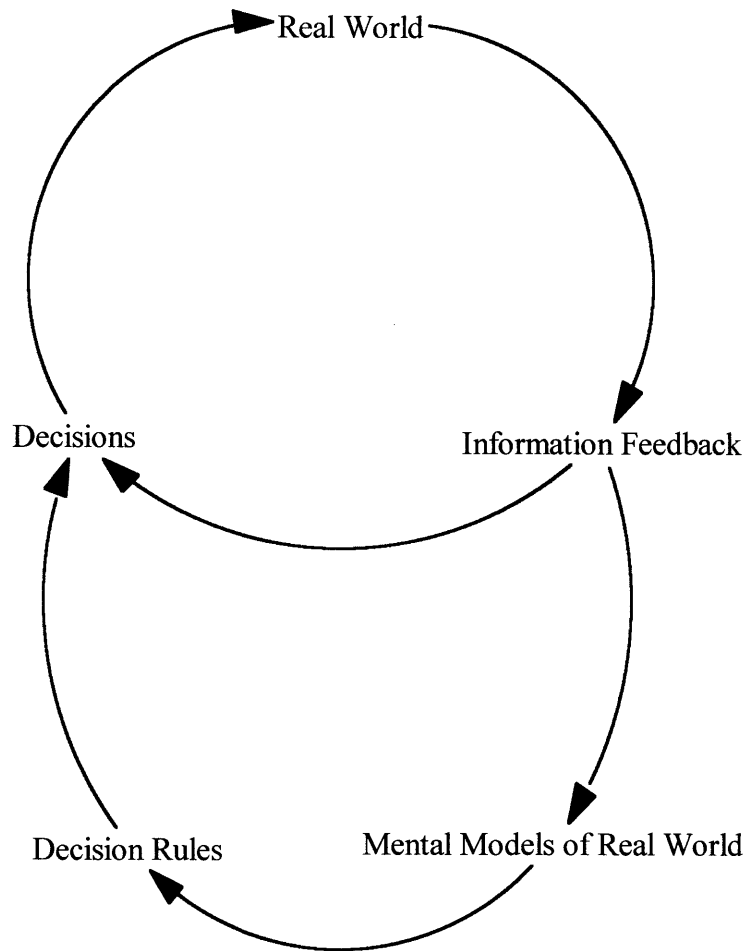


Fig. 3. "Double-loop learning"
 Feedback from the real world can cause changes in mental models.⁵⁰

Source: Sterman, John D. "Learning in and about complex systems." *System Dynamics Review*. Volume 10, Numbers 2-3 Summer-Fall 1994.

⁵⁰ The diagram illustrates the reorientation in the Department of Defense's policy objectives for Economic Development Conveyances.

2. Explaining the changes. The role of Local Redevelopment Authorities

What accounts for the changes that occurred in the implementation of Economic Development Conveyances? I will briefly propose some explanations for the reorientation in the Department of Defense's policy objectives. I will then examine the driving forces behind the incremental changes, focusing on the role of the Local Redevelopment Authorities.

Explaining the reorientation

The radical change in the Department of Defense's policy objectives for Economic Development Conveyances can be explained by a combination of factors. When the market test was initially proposed in the DoD's first Interim Rule in April 1994, it was the subject of a very strong controversy, which finally forced the DoD's to abandon the idea of selling base properties directly to the private sector.

For example, in a paper addressing the Interim Final Rule, the NAID Board of Directors wrote that:

“DoD's priority sales approach conflicts with the President's July 2nd assurance that local base reuse plans will be the preferred alternative in property disposal decisions.”

The approach adopted by the DoD in the initial rule soon appeared to be inconsistent with the new external conditions. The President's Five Point Program as well as the Pryor Amendment had called for jobs-centered quick transfer of base properties to the local communities. As a result, the Department of Defense was politically pressured to align with the broader new policy context. LRAs have also played a role in this reorientation, by exerting pressure through their congressional delegations. They were also active through public interest associations.

The DoD's reorientation can be also explained by the mismatch between the original objectives and the reality. Originally, revenues from the fair market value sale of closed facilities were expected to offset the expenses of closure and relocation of forces. The legislation authorized a base closure account which was to move the revenues gained from land sales to cover construction and other costs associated with movement of personnel and equipment in the realignment process. Initially, DoD anticipated over \$4.1 billion in base closure sales proceeds.⁵¹ However, expectations have not been met, and the Department of Defense became aware that gains on base closures would mainly be achieved through maintenance and protection cost savings, rather than through sales revenue. The Base Reuse Implementation Manual clearly states that benefits of base transfer to the federal government will come through savings in protection and maintenance costs, and that waiting for the highest price for a property may result in low or zero net present value.

The General Accounting Office (GAO) emphasized the cost of maintenance and protection as well as the negative consequences of lengthy negotiations over base sales, in a report entitled "Update on the Status of Bases Closed in 1988, 1991, and 1993." In the GAO document, an Air Force official stated that the average annual maintenance and protection cost is about \$2.7 million per base. GAO emphasized that surplus property may deteriorate and lose value by sitting idle, as demonstrated in the lengthy negotiations over the negotiated sale of the housing portions of Myrtle Beach AFB and Mather AFB. The agency recommended to set time limits on negotiations over the terms of sales, in order to preserve the value of facilities and reduce protection and maintenance costs. As the report stated,

"While the regulations provide direction on how and when sales can occur, they do not establish how long negotiations may continue. Communities may prolong the negotiation period in the hopes of obtaining more favorable terms, but they end up with property in much poorer condition. Negotiations unconstrained by time limits work to neither party's advantage."⁵²

⁵¹ Lynch, John E., Anita Morrison and George R. Schlossberg. "Economic Development Conveyances." Commentary, Winter 1997.

⁵² General Accounting Office. Update on the Status of Bases Closed in 1988, 1991, and 1993. Washington, DC, August 1996.

In terms of the EDC implementation, this new policy objective calls for both a quick transfer of properties to LRAs and a lesser emphasis on getting top dollars for every facility. Thus, the military services have the incentive to move land as fast as possible to the LRAs under the EDC rules or by negotiated sale. This evolution had a practical implication on the negotiations of EDCs with LRAs. Once the military services realized that their assumptions were incorrect, they became more willing to cooperate with the local communities.

Explaining incremental change

As shown on the figure that illustrated single loop learning, organizations make decisions and incrementally change on the basis of information feedback. In the case of EDCs, the intervention of Local Redevelopment Authorities occurred primarily in the information feedback process. LRAs have driven incremental change in the Air Force in two different ways:

The middleman role of LRAs. When the EDC mechanism was put into place, the Air Force did not know how it would work in practice. The effects of Economic Development Conveyances on the redevelopment of base properties could not be anticipated. In addition, the Air Force did not necessarily have complete information about real estate development requirements associated with the closed facilities and could not, as a public bureaucracy, predict the private sector's needs and the market responses to Economic Development Conveyances. The Local Redevelopment Authorities, on the contrary, are directly involved in the redevelopment of the bases and are familiar with the private sector's needs to reuse the properties. As a result, LRAs have played a key middleman role between the private sector and the public sector.

It is in the Air Force's interest to rely on the LRAs to provide feedback on the EDC implementation. Indeed, the service is dependent on the LRAs for the repayment of the debt owed to the Air Force. The recoupment of value relies on the LRA's ability to

successfully redevelop the properties and generate the revenues necessary to repay the Air Force. As a result, the Air Force is willing to take the information feedback provided by the LRAs seriously. Commenting on the Norton EDC amendment, Derence Fivehouse explained:

“ We want to see that property successfully developed. We want to know when it is not happening. We want to know if there is a structural defect in the transaction that is causing that. We may not always give them what they want, but we will always talk with them.”

Using this information feedback, the Air Force can revise its understanding of the “real world” and make adjustments on an incremental basis. This process and the role of the LRAs were particularly visible in the renegotiations of the EDC at Norton AFB: typically the Inland Valley Development Agency would show the Air Force that a particular transaction--the Ming Plaza Development project for example--could not come to a conclusion because of the restrictions contained in the EDC agreement. Based on this information, Air Force representatives were willing to reopen the EDC agreement in order to address specific problems. Regarding the Norton EDC amendment, Derence Fivehouse explained that:

“We learned that we are not very good at guessing about redevelopment. Reading the crystal ball is not our forte. You have to be willing to look at what is actually happening on the property, to explore ways of facilitating economic development. That’s up to the community to bring ideas to us. When there is a real prospect and transaction and a real problem with the way the transaction is structured, we are going to talk to them. The single thing we learned is that it is just hard to guess what the economy is going to be. We were rarely precisely correct. So you have to be flexible with some of those details. This process requires some fine tuning.”

Another example of the role of the LRAs can be found at Lowry Air Force Base where the LRA was able to convince the Air Force that the inclusion of an excess profits clause in the EDC agreement would act as a disincentive to development. The provision for lien subordination also developed at Lowry. As for the excess profits clause, the Air Force realized that by putting in an excess profits covenant with a three or five year duration, the community was encouraged to hold on to the property during the period and lease it rather than transferring it. According to Derence Fivehouse,

“An unintended result of an excess profit covenant is to discourage development of the property, to encourage them [the LRAs] to engage in manipulation of the process by doing long-term leases instead of transfers, or simply holding on to the property essentially for speculation purposes. When we became convinced as a result of thinking about it in the context of Lowry, we decided to go back to OSD and recommend that it gets pulled from the guidance and in fact it did. “

LRAs are engaged in a continuous conversation with the Air Force, influencing the public bureaucracy to make adjustments and constantly refine the EDC framework based on the LRAs' experience. However this incremental change occurs within the underlying mental framework in which the Air Force operates. This can be seen in the limits that are set to the negotiations. Darence Fivehouse about the Norton EDC renegotiations:

“The amendments they are trying to work now are aiming at facilitating particular deals that they are discussing with prospective transferees. Those kinds of discussions, we want to talk with them about it. Generics such as “the deal was bad, reduce the price by \$10 million”, are not helpful. I don't have a basis for negotiating about this. But if they come up with real prospects and say that the way the deal is structured right now, this specific developer cannot make anything with it, so let's see if we can change it, then we try to work it out with them.”

On a second level, LRAs have indirectly influenced incremental change by taking a network role which promoted information-sharing among local communities. Indeed, as more bases had EDCs approved, they would disseminate the information across LRAs, in part helped by the Office of Economic Adjustment and the National Association of Installation Developers which jointly organized conferences and workshops. As Bill Bopf explained, “I've been on a lot of panels, we compare notes and I listen to other people on panels, we really have grown in this process (...) we all benefited from that consolidation of information.” The formation of this network of LRAs and the horizontal information-sharing certainly empowered local communities in their approach to EDC negotiations. This influence was particularly evident in the case of Myrtle Beach AFB, where the Executive Director of the LRA, Thomas Styers, indicated that his decision to go to the Air Force and renegotiate the EDC was motivated by the fact that he had attended some conferences on the topic and heard other communities talk about the deals they obtained.

Repeated interactions: a vehicle for incremental change. The information feedback provided by LRAs as “brokers of ideas” has a direct effect on the changes in the implementation of the EDC mechanism. Beyond these changes, there is some evidence of incremental change that affects not only the implementation of the EDC policy, but also the public bureaucracy itself. Repeated interactions produced at least two outcomes in terms of incremental change.

First, multiple interactions and face-to-face contacts between the military service and the local communities contribute to build trust between the parties. The Air Force as well as the other two services were not used to working with local communities. As stated by Axelrod, cooperation emerges as the number of interactions increases. Gaebler and Plastrik have noted that trust is built by “proving, one transaction at a time, that you can be trusted.” The positive impact of repeated interactions on trust can be seen for example at Norton over time and at Myrtle Beach AFB.

Secondly, repeated interactions contribute to build real estate experience within the Air Force over time. Local Redevelopment Authorities representatives have often complained that the Air Force could not understand basic real estate finance concepts. In the early days of the process, a workshop was organized to introduce Air Force negotiators to nuts and bolts of real estate development. At the Office of Economic Adjustment, Pat O’Brien indicated that “the services were probably ill-prepared to immediately get into the cash flow pro formas and interacting with communities on those.” The interactions between two different types of organizations promote mutual learning and adaptation as the parties learn from each other and can adopt new practices. For example, some of the LRAs staff have private real estate development experience and contributed to the “education” of Air Force officials.

VI. CONCLUSION

1. Summary of the findings

The evidence collected in this study suggests that two types of changes have occurred in the implementation of Economic Development Conveyances by the Air Force. First, there has been a fundamental reorientation in the Department of Defense's policy objectives, from an emphasis on maximizing returns on base property sales to a priority placed on quick transfers to local communities and job creation.

Second, this change in goals has been followed by a period of incremental change that took place within an established set of principles defined by the military service. At least two basic principles have guided the Air Force's implementation of Economic Development Conveyances. The first principle is to ensure that the Air Force obtains the full fair market value for the properties at stake in the EDC transactions. Although the regulations allow for flexibility in the EDC purchase price charged to the Local Redevelopment Authorities, the Air Force usually only negotiates on payment terms, not on price. The second principle is the adherence of the Air Force to rules that should be made as simple and as understandable as possible for an organization that is not in the development business and has limited real estate experience. As a result, the Air Force is reluctant to enter into profit-sharing or joint venture agreements with LRAs for EDC transactions, even though the official rules allow such options.

The Air Force's unchanged inflexibility on the purchase price since the beginning of the EDC implementation, and its persistent reluctance to enter into certain types of agreements with the Local Redevelopment Authorities show that once the initial reorientation of the objectives for Economic Development Conveyances took place, the Air Force has subsequently established a fixed mental model that did not change over time.

Within this fixed mental model, there is evidence that incremental change has occurred over time in the implementation of Economic Development Conveyances. These changes are mainly related to the nature of the relationships between the Air Force and the LRAs, the willingness of the service to reopen completed transactions in order to accommodate development, the incorporation of lessons learned in previous transactions in later EDCs. Some improvements have also been noted in the cooperation between LRAs and the service over valuation.

Changes partly depend on feedback. An organization such as the Air Force receives information feedback about the redevelopment of base properties, and makes changes in order to correct mismatches between policies and the reality. The policies themselves are conditioned by institutional structures, organizational strategies and cultural norms. The Air Force's incremental changes can be characterized as single-loop learning as the military service makes changes in the context of existing mental models. Single-loop learning does not alter the organization's core values and principles. By contrast, the initial reorientation in the Department of Defense's policy objectives represents a double-loop learning, where the organization's mental models have been deeply altered.

Local Redevelopment Authorities have played an important role in the Air Force's incremental change, by providing the critical information feedback on which organizations strongly rely to make changes to their policies. LRAs have driven incremental change in the Air Force in at least different ways.

First, Local Redevelopment Authorities have acted as intermediaries between the federal Government and the private sector, voicing the concerns of the latter to the former, and pointing to the needed changes in the rules. LRAs have brought practical evidence that some aspects of the EDC rules were not working, thus legitimizing the changes and inducing more results-oriented deal-making with the federal government. The Air Force was thus able to learn on a trial and error basis from the field and the local actors involved in the day-to-day redevelopment of the bases, that there may be some disconnects between the EDC policies and the market needs.

Second, repeated interactions between the local communities and the Air Force has been a vehicle for incremental change. Multiple interactions and face-to-face contacts between the military service and the local communities contributed to build trust between the parties. Moreover, the interactions between two different types of organizations promoted mutual learning and adaptation as the parties could learn from each other and adopt new practices. For example, some of the LRAs staff had substantial experience in real estate development and contributed to the “education” of Air Force officials. Thus LRAs participated to some learning within the military bureaucracy.

2. Broader implications of the research: the public bureaucracy’s dilemma

One of the key principles behind the concept of “reinventing government” is that public bureaucracies should be “customer-driven”. However, the research has raised a new question: what does it mean to be customer-driven for a bureaucracy which has several customers with different or even competing demands and needs? In the implementation of Economic Development Conveyances, the Air Force is serving two constituencies: the base closure communities and the Federal taxpayer. These two constituencies have different interests: whereas the local communities affected by base closure seek to recover lost jobs and acquire base properties at the cheapest price and the most flexible terms, the Federal taxpayer wants to make sure that the best compensation is obtained.

Some of the limitations in a public bureaucracy’s ability to change are related to this tension between serving multiple customers. In the case of the Air Force and the Economic Development Conveyance implementation, this puts the military service in the difficult position of staying in control while still being responsive to Local Redevelopment Authorities’ requests. That may limit the LRAs’ influence in the process.

There is at least one way to solve this tension for military base property transfers. If the facilities are not transferred quickly enough to the local communities, everybody loses: the properties are not put to productive reuse and the federal government still needs to

assume protection and maintenance costs. Achieving cost savings as opposed to getting the highest price for EDC properties allows the military departments to reconcile conflicting demands from two different constituencies. Rapid property conveyances both satisfy the needs of local communities and serve the interests of taxpayers. Maybe, the Air Force should have been more aggressive in accomplishing this objective for Economic Development Conveyances from the outset. Indeed, the research has shown that while the Air Force has been more flexible and responsive to local communities' needs, the department has not been able to shorten the time it takes to complete an EDC transaction. The time issue should be better addressed by the Air Force which after all is one of the only public bureaucracies whose core mission is to react swiftly in complex and often dangerous situations.

From a broader perspective, the obligation to serve multiple customers also implies a new role for a public bureaucracy: mediation and consensus-building among the different parties that have a stake in the process. The military departments, as any other public bureaucracies, are not necessarily well prepared to assume this role. To some extent, the Office of Economic Adjustment has acted as a mediator in the case of Economic Development Conveyances. As an internal advocate for the local communities, OEA has provided a line of communication between the services and the LRAs, while taking into consideration the overall context, as well as the constraints the military departments are faced with. OEA's mediating position may have been facilitated by the fact that the office is part of the Department of Defense, but is separate from the military services. Public bureaucracies that may want to establish mediation units could possibly draw on this organizational model. In all cases, the mediation and consensus-building aspect of reinventing government will require even more changes and learning within public bureaucracies.

For local communities that wish to influence policies and public bureaucracies in contexts other than military base redevelopment, there are two lessons to be learned from the implementation of Economic Development Conveyances by the Air Force. First, individual communities are more likely to influence single-loop learning, by bringing the

evidence to public bureaucracies on what works and what does not work. However, the case of the Air Force and Economic Development Conveyances raises the question that without the initial reorientation, or double-loop learning, incremental change may not have been possible. Therefore, while pursuing single-loop strategies to change government's policies on the individual level, local communities may also want to think about the broader context and other factors influencing double-loop learning. This can be achieved for example through the organization of local communities as a collective body that can express concerns and promote change in federal government in a more powerful manner. Congress can also play a role in this regard.

The second implication of this research for local communities dealing with public bureaucracies is that there is more than one way to achieve one's objectives. Bureaucracies are not only driven by legal or regulatory constraints, but also by mental models and organizational norms that in some instances limit their ability to accommodate their customers' requests. Local communities need to understand these mental models, and what changes in policies and practices are more likely to be accepted. The negotiations of the Economic Development Conveyance at Mather Air Force Base has shown that a direct confrontation on one of the Air Force's core value--the purchase price--resulted in a stalemate and caused substantial delays in the conveyance of the base property. Conversely, price was hardly challenged at Myrtle Beach AFB, and the negotiations were successfully completed in two days. As opposed to trying to make the federal government change its core values, local communities need to investigate alternative ways of achieving their objectives, as demonstrated at Norton AFB.

Local communities should be aware of dilemmas in public bureaucracies. They are more likely to be successful in changing policies if they learn how to work with a bureaucracy's existing mental models as opposed to challenging them directly.

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IX. APPENDIX-SUMMARY OF ECONOMIC DEVELOPMENT CONVEYANCES

| Base | State | Community | Date EDC | BRAC | Date closure | Acreage | Consideration price (\$ million) | Terms | Interest Rate | Excess Profit |
|---------------------------|-------|-----------------------------|----------|------|--------------|---------|----------------------------------|---|---------------|---------------|
| Norton AFB | CA | San Bernardino, CA | Sep-94 | 88 | Mar-94 | 621 | 52.00 | Participation in Gross Rents. 40% Years 1-15, Balloon payment of any remaining debt at end of term | 0 | Yes |
| Sacramento Army Depot | CA | Sacramento, CA | Mar-95 | 91 | Mar-95 | 407 | 7.00 | 10 years, 3% per annum. Lump sum payment of \$6.8 million in Year 10 | 0 | Yes |
| Navy Homeport Site | AL | Mobile, AL | May-95 | | | 100 | 30.00 | | N/A | No |
| Lowry AFB | CO | Denver, CO | Jun-95 | 88 | Sep-94 | 711 | 32.50 | Participation in Gross Rents. 14% Years 1-5, 35% in years 6-15 | 0 | No |
| Lexington Army Depot | KY | Lexington, KY | Sep-95 | 88 | Sep-95 | 570 | 2.34 | \$2,300,000 plus accrued interest if sold within 15 years | 0 | Yes |
| Gentile Air Force Station | OH | Kettering, OH | Mar-96 | 93 | Dec-96 | 164 | 0.00 | Leaseback | N/A | No |
| Fort Ben Harrison | IN | Indianapolis & Lawrence, IN | Apr-96 | 91 | Sep-96 | 488 | 6.10 | 9 years at 6.5% per annum. Following initial payment of \$1 million, participation in land sales | 6.50% | No |
| George AFB | CA | Victor Valley, CA | Apr-96 | 88 | Dec-92 | 1,700 | 28.00 | Participation in Gross Lease Revenues. 0% until Yr. 10, then prime of \$14 million is not collected | 0 | No |
| Fort Devens | MA | Ayer, MA | May-96 | 91 | Mar-96 | 2,250 | 17.90 | \$2,397,438 in 1996; \$2,500,000 in 1997, 1998 & 1999; \$3,000,000 in 2000; and \$5,000,000 in 2001 | 0 | No |

| Base | State | Community | Date EDC | BRAC | Date closure | Acreage | Consideration price (\$ million) | Terms | Interest Rate | Excess Profit |
|---|-------|----------------------------|----------|------|--------------|---------|----------------------------------|--|---------------|---------------|
| Long Beach Naval Sta. Savannah-Cabrillo housing | CA | Long Beach, CA | Jul-96 | 91 | Sep-94 | 32 | 1.04 | 12 years, 10-year treasury rate | T-Bill Rate | No |
| Newark AFB | OH | Heath, OH | Aug-96 | 93 | Sep-96 | 56 | 11.30 | PIP. Earned through rent credits | 0 | No |
| Charleston NB Complex | SC | Charleston, SC | Sep-96 | 93 | Mar-96 | | 0.14 | Personal Property | | |
| Mather Air Force Base | CA | Sacramento County, CA | Oct-96 | 88 | Sep-93 | 621 | 7.90 | Up to \$3.3 million job creation discount. Simple interest, no payment in Years 1-5, release prices Years 6-11, \$600,000 in Years 11-16 | 8.25% | No |
| Glenview NAS | IL | Glenview, IL | Dec-96 | 93 | Sep-95 | 109 | 2.11 | Golf Course in exchange for construction of a child care center | N/A | Yes |
| Orlando Naval Training Center | FL | Orlando, FL | Jan-97 | 93 | | 1,105 | 1.85 | McCoy Annex Housing, payable at time of approval | | |
| Long Beach Naval Hospital | CA | Los Angeles-Long Beach, CA | Jan-97 | 91 | Sep-94 | | 8.60 | Two notes. Expected payoff on one in year 23 and year 30 on the other | | |
| Griffiss AFB | NY | Utica-Rome, NY | Apr-97 | 93 | Sep-95 | 1,562 | 0.50 | Upfront payment, utilizes Rome lab assets | 0 | No |
| Defense Personnel Supply Center | PA | Philadelphia, PA | May-97 | 93 | Sep-94 | 11 | 0.65 | 8-year payment plan | 0 | No |
| Glenview NAS | IL | Glenview, IL | Jun-97 | 93 | Sep-95 | 109 | 0.00 | Remaining property at NAS, most property subject to 10-year recoupment provision | N/A | Yes |
| Kelly AFB | TX | TX | Jul-97 | 95 | | 1,876 | 108.00 | PIP. Annual participation pmts for 44 years and annual premium participation pmts | | |

| Base | State | Community | Date EDC | BRAC | Date closure | Acreage | Consideration price (\$ million) | Terms | Interest Rate | Excess Profit |
|-------------------------------|-------|------------------|----------|------|--------------|---------|----------------------------------|--|---------------|---------------|
| Orlando Naval Training Center | FL | Orlando, FL | Aug-97 | 93 | | 1,105 | 10.00 | Remaining Property. Awaiting formal concurrence package | | |
| Myrtle Beach AFB | SC | Myrtle Beach, SC | Aug-97 | 91 | Mar-93 | 420 | 8.50 | | | |
| Detroit Arsenal Tank Plant | MI | MI | Dec-97 | | | | | Phased conveyance. \$600,000 in 1/98; \$3.1 million in 3/98; \$600,000 in 4/99; and \$1.6 million on terms | | |
| Carswell AFB | TX | Arlington, TX | Feb-98 | 91 | Sep-93 | | 3.20 | | | |

Rural EDCs

| | | | | | | | | | | |
|-------------------|----|------------------------|--------|----|--------|-------|------|---------------|-----|----|
| Grissom AFB | IN | Miami County, IN | Apr-96 | 91 | Sep-94 | 630 | 0.00 | Rural No Cost | N/A | No |
| Tooele Army Depot | UT | Tooele, UT | May-96 | 93 | Sep-95 | 1,000 | 0.00 | Rural No Cost | N/A | No |
| Wurtsmith AFB | MI | Iosco County, MI | Jun-96 | 91 | Jun-93 | 500 | 0.00 | Rural No Cost | N/A | No |
| K.I. Sawyer AFB | MI | Marquette, MI | Sep-96 | 93 | Sep-95 | 146 | 0.00 | Rural No Cost | N/A | No |
| Loring AFB | ME | Aroostook County, ME | Mar-97 | 91 | Sep-94 | 3,699 | 0.00 | Rural No Cost | N/A | No |
| Eaker AFB | AR | Mississippi County, AR | May-97 | 91 | Dec-92 | 1,300 | 0.00 | Rural No Cost | N/A | No |

Source: Office of Economic Adjustment