EXECUTIVE SUMMARY: The Commercial Property Endowment Model, emanating from the genre known as social enterprises, has been adopted in the cities of Milton Keynes and Peterborough in the U.K. In both cases, non-profit organizations were established to operate park systems independent of the cities. The non-profits were given commercial properties which were income-earning assets to manage as well as parks. The rationale for this was that lease fees generated from these properties would provide a sustainable income stream that could be used to fund their mission of operating, maintaining, renovating, and enhancing the park system. These two cases are compared with a similar model at Mission Bay Park in San Diego whose operations also are financed by commercial property lease fees. In the U.S., the Commercial Property Endowment Model would be classified as an operating foundation. However, in the U.S., operating foundation endowments typically have been created by philanthropic action or from self-generated revenues, rather than commercial property leases. The paper discusses the effectiveness and characteristics of several U.S. operating foundations, and compares their cultures with those of public agencies. Circumstances and contexts in which the Commercial Property Endowment Model may be viable, together with the trade-offs involved with its implementation, are suggested.

KEYWORDS: Commercial Property Endowment, social enterprises, service delivery, leisure trusts, operating foundations.

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The overarching challenge confronting those charged with the delivery of public park and recreation services is securing the financial resources to deliver them effectively. Many park and recreation agencies are able to produce statistics showing that while resources provided by government have decreased in real dollar terms, demands for their services have increased (Crompton, 1999). Arguably, this situation has been characteristic of the field since the tax revolt movement of the late 1970s and early 1980s. One of the outcomes of these circumstances has been the emergence of an array of innovative delivery models designed to adapt to this environment. This article describes one such model that...
has emerged in the U.K. and would appear to have potential for adoption in some contexts in the U.S. It is termed the Commercial Property Endowment Model and can be classified as being in the genre known as social enterprises:

A social enterprise is a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximize profit for shareholders and owners (Simmons 2008, p 279).

In the context of leisure service delivery in the U.K., momentum for the social enterprise approach was created in 1988 when the Thatcher government passed its Compulsory Competitive Tendering (CCT) Law, requiring the delivery of most local government services, including parks and recreation, to be subjected to competitive bidding. The process was governed by a set of regulations designed to avoid anti-competitive behavior. A city’s own employees could bid on the contract against private sector competition if they organized themselves into an independent, non-profit organization. The intent was to introduce competition into service delivery and create the cost-effectiveness that is usually derived from such competition.

Creation of this new type of delivery model resulted in a changed role for park and recreation professionals. They became entrepreneurs operating in a public service environment. They were required to seek creative, resourceful ways of using their scarce funds to leverage substantial additional resources through tighter control of costs and partnering with a wide range of business and non-profit entities. They were able to make more responsive and timely decisions and to use financial resources more flexibly, free from the shackles of lengthy local government procedures. Out of the 400 local authorities in Britain, over 100 of them use trusts in some form to deliver leisure services (Simons, 2004). Thus, Simons (2004) concludes, it “has become a mainstream policy alternative” (p. 161).

The basic model is that a city retains ownership of facilities and leases them to a trust. In addition, the contract specifies the trust will receive a grant from the city and in exchange will deliver a given set of services. By tying social outcomes to the grant, the social objectives of leisure services are protected. Some of the trusts have expanded beyond their own city to contract with other communities. Since contracts are competitively bid, these trusts may have outbid a trust established by a town’s own leisure services staff, trusts from other towns, and commercial companies that specialize in leisure service contracts. For example, Greenwich Leisure Limited, one of the pioneering trusts, now contracts to manage leisure facilities in eight other communities outside Greenwich.

The obvious limitation of this model is that the annual grant is often reduced as cities’ budgets are squeezed, as it would be if the services were directly delivered by the city. The commensurate reduction in services to be developed means that despite improvements in efficiency and effectiveness, the quality and quantity of services are vulnerable. A particularly pernicious limitation of this outcome is that deferred maintenance is encouraged and no provision is made for periodic capital renovation as facilities become outdated and worn out.

In response to this limitation, the cities of Milton Keynes and Peterborough created the Commercial Property Endowment Model. This was designed to create an income stream in perpetuity from the endowed property assets that would enhance their park systems and protect them against decline. Both of these cities were designated “New Towns” by the U.K. government in the late 1960s. The managerial structure of New Towns was different
from established towns and was influential in creating the models. Thus, their structure is outlined in the next section before describing both the models in the two cities and a comparable model at Mission Bay Park in San Diego.

**British New Towns**

In 1902, Ebenezer Howard published *Garden Cities of Tomorrow*. He introduced the concept of a garden city whose central feature was greenery with an open quality, tightly defined by a permanent girdle of open space, parks, and agricultural land around it. His ideas generated sufficient interest to allow him to secure financing to implement his ideas by developing the city of Letchworth. A second garden city, Welwyn was launched after World War I.

After World War II, the New Town/garden city movement received new momentum in response to the extensive damage to homes and infrastructure incurred by major cities from bombing. New Towns were seen as an opportunity to improve the urban condition by “starting over” in green field locations. Between 1946 and 1970, the government chartered 21 New Towns. They were comprised of a mixture of public and private housing, and incentives were provided to industries and businesses to locate in these new towns.

The organizations formed to develop these New Towns were development corporations. They were government-sponsored corporations, funded by the central government treasury, and were expected to be break-even operations. Each development corporation had the power to acquire, and if necessary to condemn, land, in its defined area. Land was purchased at agricultural use value by the development corporation, which then had power to change the zoning and sell the land to private buyers, contractors, or industry at the new, enhanced development land price. The development corporations borrowed money for a 60-year period from central government. Thus, infrastructure and funds for public housing and interest repayments were paid for by the profit from land sales.

When the New Towns reached maturity, their assets and management were transferred to regular city governments. The Thatcher government made a decision to dissolve all the New Town development corporations by 1990, so they were officially terminated at that time. Generally, these communities are recognized as being one of Britain’s most successful urban policies.

Before the development corporations were dissolved, those at the cities of Milton Keynes and Peterborough initiated a new kind of model for delivering leisure services. In both cases, they established commercially endowed trusts, which are similar in many respects to operating foundations in the United States. The trusts managed leases on commercial properties as well as leisure facilities. The intent was that income from the commercial property would fund the leisure amenities, so the trusts would be financially self-sufficient organizations free from the need for any government subsidies.

**Milton Keynes Parks Trust**

In 1967, central government announced its intent to establish the New Town of Milton Keynes to accommodate 150,000 people from the London area over a period of 20 years. The new town was to be developed on 22,000 acres, which included a number of small existing settlements with a combined population of 60,000. This was the largest and most ambitious of all the New Towns. The master plan was completed in 1970. With the existing population, the influx of Londoners, and natural growth, its projected ultimate population was 250,000. Although the 20-year timeframe proved to be overly ambitious, these population goals have almost been met. From its 1967 base of 60,000, Milton Keynes’ population is projected to be 237,650 in 2011. It is widely recognized as being successful with an effective balance of homes, jobs, amenities, and services.
The Milton Keynes Parks Trust began operations in 1992 after being established by the development corporation which leased the property to it for 999 years. It is responsible for one of the largest urban parks systems in Britain, comprised of approximately 4,000 acres of parkland and a further 800 acres of parkways (magnificent tree and shrub belts along the major roads). This represents over 20% of the geographic area of the city.

Along with the parklands and parkways, the Trust received income-earning assets. This is the hallmark feature of the Commercial Property Endowment Model. In Milton Keynes, these assets were properties with relatively low value and high yield that were not attractive to institutional investors. In 1992, these properties were valued at around £18 million ($30 million). They currently comprise four neighborhood shopping centers, five local shops, six industrial developments, three office developments, eight public houses, two gas stations, and one health and leisure club. These assets are owned in fee simple (i.e., ownership of all the rights associated with the properties) by the Trust, which is free to trade them as it desires.

The income from the property assets is approximately £3 million per year, and another £200,000 is generated from investment income, rentals, forestry products, and concessions. This income stream is used to maintain the park lands and parkways. A portion of the annual income is assigned each year to a fund in anticipation of future capital replacements. The endowment of the portfolio of commercial property enables the Trust to be entirely independent of local government funding.

Peterborough Nene Park Trust

In contrast to Milton Keynes, which was largely a “green field” site, Peterborough is an ancient cathedral city located on the River Nene, 75 miles north of London in East Anglia. The Peterborough Development Corporation was established in 1968. Its master plan augmented the historic and relatively prosperous city with four new townships sited around the existing urban area. As a result of the activities, its population increased 45% between 1971 and 1991. Today the population is approximately 175,000.

In 1971, the author of this article led a consulting team whose charge was to explore the feasibility of a major park along the River Nene. The brief was to advise on planning the site, the costs and revenues associated with operating it, and suggest an optimum management structure (LRPC 1972). The central feature of the site was the creation of a 107-acre lake that was created between 1971 and 1977 by extracting gravel from the site that was needed to construct the expanded road structure. When it was developed and operated, the park attracted over 750,000 visitors a year.

In 1988, the Development Corporation established the Nene Park Trust, believing it was the best vehicle “to provide for the public benefit a park and recreation ground for the inhabitants of Peterborough and visitors with the object of improving the condition of life for such persons.” (Nene Park Trust, 2008) The local authorizes that had responsibilities for other public services, recognized the benefits of creating this independent trust to deliver leisure services and were supportive of it. In addition to the 2,500 acres of parkland and its array of concessions and recreational activities, the Nene Trust’s estate is comprised of land, facilities, and amenities rented to a number of contractors through a variety of license and lease agreements: two 18-hole golf courses; one nine-hole pitch-and-putt course; two hotels; two public houses; one equestrian center; one garden center; one trailer park; and 740 acres of agricultural land leased to nine different tenants.

In addition, the Trust was given three retail developments and one commercial development that were owned by the Development Corporation. These income-earning assets are the core feature of the Commercial Property Endowment Model. The rental
income from these was used to fund operating costs of the park. Subsequently, a decision was made to sell these assets and invest proceeds in the stock market to generate more income. Thus, this money is now an endowment.

In the early years, these revenue sources generated surpluses each year. These were put into a capital reserve fund to pay for future major infrastructure and equipment replacement/refurbishment. This capital reserve fund also is a stock market-based investment, but for capital growth, not annual income like the endowment fund. These resources provide an annual income to the Trust of approximately £1.5 million derived from:

- The Trust’s own operations (£83,000): car parking fees, gift shop/visitor center income, etc.
- Income from leases and licenses (£561,000)
- Endowment income (£319,000)
- Investment income (£529,000)

Of this £1.5 million, the first three sources are used for annual operations, which can be classified into three categories: 1) managing the substantial number of leases and licenses; 2) managing the agricultural land areas, which in addition to the leases involves conserving and enhancing the landscape and the areas to which the public has access for informal recreation such as hiking and horse riding; 3) enhancing visitor-related activities through providing information, activities, and events.

**A U.S. Model: Mission Bay Park, San Diego**

Perhaps the most analogous model in the U.S. to the Milton Keynes and Peterborough approaches is Mission Bay Park in San Diego, which is the largest man-made aquatic park in the U.S., consisting of 4,235 acres, of which 46% is land and 54% is water. Approximately one-half of the park was once tidal land. In 1944, the city declared its intent to develop Mission Bay into a tourist and recreational center. Thus, from 1945 to 1962, the city, with state and federal government aid, dredged 25 million cubic yards of sand and used it to create the land forms in the park. When the dredging and filling were completed and the park was formed, the city turned to financing. They established two guiding principles:

- There would be no permanent residential development or any private ownership of land in the park.
- Commercial leaseholds should not exceed 25% of the land area or 6.5% of the water area.

These principles assured that most of the area would be available for public recreational use. The intent was that the lease revenue would be used to finance the park’s operations and any surpluses would go to fund enhanced infrastructure and other capital developments. Unfortunately, the charter statute establishing this arrangement contained a clause that allowed the city manager to request the city council suspend the compact if the city needed the surplus funds to maintain other city services. Inevitably, this loophole was used, and the “surplus” money was siphoned away to pay for other things. Indeed, by 2008, it was estimated that only 8% of Mission Bay lease revenue was spent improving Mission Bay and 92% was used elsewhere.

Currently, the leases generate about $30 million a year from Sea World, hotels, and other businesses, while an additional $17 million comes from sales tax, permits, mooring fees, and other sources. In November 2008, the residents of San Diego passed Proposition
C, which amended the city charter so a proportion of the surplus income was again
dedicated to capital projects in the park. It was projected that this would be $5.3 million in
2011 and rise to $8.7 million in 2015. Thus, the original intent of the Property Endowment
Model was partially restored (San Diego City Attorney, 2008).

Discussion

There is a long tradition in some state and local park systems of encouraging compatible
commercial facilities such as hotels, lodges, ski amenities, and cabins to offset the costs of
park operations. The 17 “state resort parks” in Kentucky are illustrative. In Texas, when
the legislature was presented with donations of land for 64 state parks in 1925, they rejected
them and indicated they would accept park land donations “only upon condition that the
maintenance, beautification, and upkeep thereof be guaranteed” (Crompton, 2007 p. 54)
so it would not be a cost liability to the state. At the local level, an outstanding example
is Oglebay Park operated by the Wheeling Park Commission in Wheeling, West Virginia.
The extensive lodge, conference facilities, and attractions in the park, enable it to operate
without public tax support.

However, in these instances, the goal of attaining financial sustainability for the parks
was never structurally formalized by creating an independent organization to accomplish
this goal. If this is not done, then there is some probability that any reductions in net
operating costs secured by the parks agency will go unrewarded and any surplus directed
elsewhere. The council’s reaction may be: “The department has reduced the operating
deficit from $800,000 to $500,000, so next year they only need $500,000 to support their
operations.” Thus, instead of reinvesting the $300,000 gain into the agency for upgrades,
addressing deferred maintenance, renovations, and expansion, the $300,000 goes into
the general fund. This demoralizes managers and staff, because gains in efficiency go
unrewarded if savings are redistributed elsewhere. The social enterprise model removes
this limitation.

Multiple variations of the social enterprise model are emerging in many other fields
of government. For example, the author’s city council followed many other cities when
it recently changed its approach for delivering subsidized low-income housing. It is now
integrated into mixed-use developments where its costs are offset by lease fees forthcoming
from the private housing and retail elements of the development.

In the U.S. context, the Commercial Property Endowment Model as formulated in
Milton Keynes and Peterborough would be classified as an operating foundation. The
IRS defines this as a foundation that spends substantially all of its net income directly on
the active conduct of the activities constituting the purpose for which it is organized and
operated. Its funds are expended on direct service delivery, rather than on making grants or
otherwise facilitating the work of other organizations that then deliver the service.

Perhaps the best examples of operating foundations with responsibilities and budgets
that are similar to those in Milton Keynes and Peterborough are the Leroy Springs
Foundation, based in Lancaster, South Carolina, and the James Foundation located in
Meramac Village, Missouri. The Leroy Springs endowment was provided by the Springs
Cotton Mills, which was the largest manufacturer in South Carolina for much of the
twentieth century. With an annual budget approaching $15 million, it operates a wide array
of recreation facilities in communities in South Carolina in which its mills were located.
The James Foundation endowment was established by a family who owned an ironworks
in the area. The foundation employs approximately 55 people to operate Meramac Spring
Park and several smaller recreational facilities.

In both cases, the endowment was created by private philanthropic action, rather
than by the governmental action that characterizes the Commercial Property Endowment
Model. Nonetheless, their long and distinguished record of service delivery demonstrates the potential effectiveness of the operating foundation approach to service delivery.

Other operating foundations in the U.S. that are self-sustaining have facilities they operate which generate sufficient revenues to offset costs. The Baltimore Municipal Golf Corporation is a good example of this. The city of Baltimore was losing more than $500,000 annually on the operation of its five municipal golf courses. The lack of profitability caused the city council to reduce the funds allocated to the golf courses, which led to deterioration in both the course and the clubhouse conditions, declining patronage, and poor employee morale. The city considered four options: contracting out to a private golf management company; establishing golf as an enterprise fund; establishing a revenue authority; and forming a 501(c)(iii) operating foundation (Cook, 1996).

The latter option was selected, and in 1986, the city provided the new entity with a $500,000 loan. The operating foundation structure enabled the courses to be operated much more efficiently so they generated an operational surplus. By statute, all its profits were returned to support the golf course. Interestingly, this option was opposed by the parks and recreation agency and the media (Cook 1996). Nevertheless, it is widely acknowledged to have been highly effective in resuscitating the golf courses in Baltimore through good management and extensive reinvestment in the courses.

The success of social enterprises such as operating foundations is dependent not only on the income stream to finance parks, but also on the freedom they provide for more responsive management. Reid (2003) described this as “Private sector freedom to manage with public sector ethos” (p. 171). Social enterprises are a “middle ground” between the public and private sectors. They seek to adapt the methods and principles of business to attain social objectives.

The independence of social enterprises, such as the Milton Keynes and Nene Trusts, offers opportunities to foster a radically different culture from that which necessarily prevails within a local government entity. Political decision making with its tendency to focus on short-term implications and to be ideologically rather than pragmatically driven; public accountability and the inherent internal bureaucracy that is required to enforce it; the “fishbowl” environment; and the consequential low staff morale which characterizes many government departments, make most local government managers risk averse.

Peter Drucker (1991) argued, “a well-managed nonprofit gets at least twice the bang out of each buck that a government agency does” (p. 19). He also suggested that a move into nonprofitization through the use of operating foundations will emerge as a natural extension of privatization. Drucker’s views have credibility because he was the earliest popularizer of privatization in his 1969 book, *The Age of Discontinuity*, at a time when most ridiculed the concept.

The improvements to park and recreation service delivery emanating from the greater flexibility of social enterprise organizations were described by Sesnan (2001) reflecting on his experience with the Greenwich Leisure Trust where the goal is:

To keep the public sector ethos about doing things for the community but, at the same time, being able to have commercial freedom … to spend the right amount of money on marketing, to make the right investment decisions and do the things which are very difficult to do within local authorities (p. 8).

In a letter to the author, the chief executive of the Nene Trust reinforced this point, “Having worked in a number of local authorities before joining the Trust last year, this is by far the most responsive and least bureaucratic/political organization I have ever worked for!” (McCulloch 2009). His perspective is similar to those expressed by the managers of trusts interviewed by Simmons (2008).
Clearly, there are likely to be trade-offs in these kinds of arrangements, and these were well illustrated by More (2002) in the context of the proposed Brooklyn Bridge Park in New York City:

Currently, the Port Authority of New York owns 80 acres of land in the park-starved Brooklyn Heights section that both it and the community want to turn into a park. Some residents have argued for a park that is free of commercial activity and which is maintained by the city or state. But state legislators insisted that the park be financially self-sustaining. The most likely result is that the “park” will include a mix of restaurants, offices, and a hotel or conference center. How much of this extremely scarce city green space will be consumed by development in the name of sustainability? (p. 70).

In a response to More, Crompton (2002) argued the counter case: “In an ideal world, I would concur with More’s protest … [that] using commercial rents to sustain the proposed Brooklyn Bridge Park is inappropriate because it means surrendering some of the potential park acreage to commercial use. When viewed in a vacuum, all park advocates probably would agree” (p. 99). However, Crompton points out that this perspective ignores the reality in many political contexts: “The key question is, ‘if non-tax income is removed would it be replaced by tax investment?’ If the answer is “no”, and I believe that More would probably concur that in many cases the answer would be “no”, then the consequence would be park closing or lowering of service standards … a large majority are likely to conclude that the park’s commercial use option is preferable” (p. 99). Ironically, contrary to More’s contention, the social enterprise model can be viewed as a means of moving away from the creeping commercialization of parks which he abhors, by creating an income stream that is independent of the park.

Public entities are using a growing array of different models to deliver park and recreation services in their search for greater efficiency and effectiveness while retaining equity. Coproduction, contracting out, outsourcing, facilitation, brokering, and partnerships are all now well established as alternate approaches to direct delivery. Thus, social enterprise models are only one of multiple options available to cities. They are less well known than most of the others, but the contemporary financial and political milieu seems conducive to fostering them. Certainly, the combining of entrepreneurial skills and social purpose would appear to have merit in efforts to provide sustainable park systems.

Clearly, the key to creating a viable Commercial Property Endowment enterprise is the magnitude of the income stream emanating from the endowed property. It is improbable that legislative bodies will take tax revenue they receive from existing commercial properties out of the general fund and designate it for park funding as happened at Milton Keynes and Peterborough. The more probable approach is that described by More at Brooklyn Bridge Park. That is, a portion of existing park land would be leased for commercial purposes for the explicit purpose of creating an income stream for the park. Whenever a proposal emerges to use park land for some other purpose, invariably there is a public outcry. However, if the development’s income stream is the mechanism for substantially enhancing and sustaining a park, then there is likely to be greater public tolerance for such a project. The degree of tolerance will be dictated by the magnitude of the trade-offs involved.

It appears to the author that four conditions must be present before a radically different “out of the box” approach such as the Commercial Property Endowment Model will be implemented. The first two of these are probably met currently in many jurisdictions: the agency is under serious fiscal stress, and substantial savings could accrue to the jurisdiction by passing responsibility for operations to another entity.

However, the remaining two conditions are probably more critical for provoking change: the strategy must be politically feasible; and, perhaps to create that feasibility, some
precipitating event makes it impossible to continue with the status quo. Both of these conditions were present at Milton Keynes and at Peterborough, where the development corporations acted as “midwives” for the birth of the trusts (Pointer et al., 1997). Knowing they were going to be shortly disbanded; believing that parks were integral to the future viability of their communities; and recognizing that there would be temptations for their successor governing bodies to “short change” parks in response to budgetary pressures; the two development corporations acted to protect their substantial capital investments in these park systems by providing them with an independent, sustainable income stream.

Are there precipitous events in communities in the U.S. that could make the Commercial Property Endowment Model a feasible political strategy in some contexts? The author believes the answer appears to be “yes.” For example, a recent proposal by the governor of California to close 80% of the state’s parks in response to California’s catastrophic financial situation may be sufficiently precipitous to nurture models such as this. Clearly context is important, and the social enterprise approach will be appropriate only in selective cases. Nevertheless, as jurisdictions continue to evolve from the direct provider model of delivering park and recreation services to alternatives that reduce the burden on local taxpayers, it seems likely that social enterprise approaches, such as the Commercial Property Endowment Model, will receive increasing attention.

References