

The Fort Benjamin Harrison Reuse Authority Land Swap

By Ehren Bingaman

AN ECONOMIC DEVELOPMENT LAND EXCHANGE THAT CREATIVELY EXEMPLIFIES A TRUE WIN-WIN-WIN

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REUSE AUTHORITY LAND SWAP

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INTRODUCTION

The closure of Fort Harrison has been like many around the country where communities face devastating news and difficult decisions, myriad land conveyance and environmental issues, and unique conditions that make each closure different. One particular condition unique to Fort Harrison is how Army leaders and veterans groups negotiated to keep the Harrison Village Commissary and Post Exchange (PX) open. This was a unique circumstance because in the overwhelming majority of base closures, all facilities, including the commissary and PX, close.

Non military personnel, like the author, need to know that a commissary is a grocery store for use by base personnel and their families; a PX is like a department store with everything from razors, to High Definition televisions, to clothing, to beer, wine and cigarettes. Like the commissary, access is limited to military ID holders and their families.

Among the reasons for keeping these facilities open at Fort Harrison were the presence of military personnel, retirees, and their families in Indianapolis and surrounding communities; this commissary and PX were the only full size operations of their kind in Indiana; and there was political will to fight to keep them. From the perspective of the Fort Harrison Reuse Authority, some



The new commissary and PX had to be part of the same building structure, which added cost and design time to the project. The two facilities share parking and awning space, but have separate entrances. There is a fire wall separating the two structures in the middle. Shoppers enjoy the convenience of both stores being next to each other.

activity at the closed base was better than no activity at Fort Harrison, given the uncertainty of its future.

The Fort Harrison Reuse Authority (FHRA) was created after Fort Harrison was closed to serve as an economic redevelopment agency for the former base property. The agency is considered quasi-governmental with five members who are all politically appointed. The FHRA has the power to buy and

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The bridge that connects 56th Street to State Road 67, US 36, and Interstate 465. The connecting of 56th Street through the Fort to these major arteries was essential to the growth beginning redevelopment of Fort Harrison. This bridge is immediately east of the proposed Lawrence Village at the Fort, a mixed use development of the sites occupied by the former commissary and PX.

sell property, is tax exempt, and has jurisdiction over a property tax increment finance district whose proceeds must be used for investment in the district for the purposes of economic development. The FHRA has only two full time staff.

Originally, the Army had planned to lease the commissary and PX from the FHRA until a time when the Army was prepared to dispose of those properties, which are located on 56th Street, the main east and west road that leads into Fort Harrison from the west and central Indianapolis. FHRA planners realized early on that if 56th Street was realigned, widened, and extended further to the east, it would make 56th Street into an attractive east/west corridor connecting upper class northeastern suburbs to Interstate 465, the beltway around Indianapolis.



Looking back toward the west on 56th Street. This image shows economic development, both new and redeveloped properties, as a result of the widening and extension of 56th Street. These sites are immediately west of the former commissary site, which is now cleared and ready for new development.

Among the powers granted the FHRA in the Indiana Code, the Authority can issue tax free bonds with revenues collected in a Tax Increment Finance (TIF) district to finance investment activities that benefited the TIF district. In this case, the TIF district is the 650-acre Fort Harrison economic development area. FHRA planners had the foresight to establish the TIF district boundaries almost as soon as the FHRA started working. This meant that the base year of the increment is the assessed value



This picture looks back toward the east along 56th Street to the bridge connecting major arteries near the Fort. The south side of 56th Street has already seen \$100 million of private investment. The north side is now prepared for the future Lawrence Village at the Fort. The old commissary and PX were located on the left side of this photo.

of the area when it was an Army base, which because it was federal property in the base year, meant that the base year assessed value of the Fort Harrison TIF district was 0 (zero). Ultimately, this has provided incredible leverage in the Fort Harrison story, because the FHRA collects the entire property tax levy in the Fort Harrison reuse area, all 650 acres.

This ability to generate revenue allowed the Authority to finance \$12.3 million in partnership with the city of Indianapolis and the Indiana Department of Transportation to realign and widen 56th Street from two to four lanes. More importantly, 56th Street now connects I-465 to Pendleton Pike and by October 2005 was generating 25,000 daily trips.

In short order, Fort Harrison became a viable market for commercial and residential development. Aided by favorable interest rates and a strong economy, Fort Harrison experienced great interest and reinvestment in the former base. Soon, new development and the rehabilitation of historic properties began to change the perception of the commissary and PX operations that continued to exist along 56th Street. Through the improved access created by 56th Street and marketing, the Authority had successfully influenced the direction of private investment and property values. It was not long after that Fort Harrison planners realized they had to address the existing commissary and PX if they were to continue to capitalize on the real estate development boom of the turn of the century. With the momentum created by 56th Street, the FHRA had to take advantage of the property that represented its greatest asset.

BROKERING A DEAL

FHRA planners realized that the highest and best use of the commissary and PX parcels on 56th Street needed to be revisited. As the south side of 56th saw national franchises take off, the Army-owned properties were

showing their age. Becoming more aware of the situation, FHRA leadership also acknowledged that the existing commissary and PX were prohibiting investment interest in the adjacent properties to the north. Commercial investors liked Fort Harrison in total but were initially interested in changing the 56th Street gateway before investing in more difficult, interior parcels. Something had to be done or the Authority would fall short in its total redevelopment of Fort Harrison. The FHRA knew that in order to fulfill its mission, it needed to acquire the 12 acres of land where the commissary and PX are located.

The Authority had another issue that needed to be resolved in addition to its redevelopment obligations. As part of the conveyance of the 650 acres from the Army to the FHRA, the Authority agreed to pay the Army \$6 million for the land. Beginning in 1996, as the Authority sold land for private development, it would make incremental payments to the Army for the acquisition. By 1999, the FHRA still owed the Army \$3 million in principal and interest.

In 1999, former FHRA Executive Director J. Lynn Boese initiated a conversation with the Army, posing two questions: 1.) How could the FHRA acquire the commissary and PX property, while continuing to serve and meet the needs of Indiana's active duty military personnel, retirees, and their families? and 2.) How could the FHRA resolve its outstanding debt obligations to the

Army and produce a win/win for the military in a way that allowed for the remaining redevelopment of Fort Harrison?

Boese appealed to the Army on a couple of points, the first being that Fort Harrison had been decommissioned for almost three years and the Army needed to complete its conveyance of Fort Harrison and get the commissary and PX property off of the Defense Department's inventory. The Department of Defense's urgency to dispose of property in an expeditious manner was due to increased attention by Congress for more responsive implementation of the BRAC law. Additionally, the FHRA still had approximately \$3 million in debt to the Army that was tied to the original Fort Harrison Economic Development Conveyance (EDC). An EDC is when the Department of Defense conveys military property to an entity for the purposes of economic development. The third point that Boese made to the Army was that the community wanted to continue to support the troops but that the location of the commissary and PX belonged on military property, not in a public, community setting.

Boese and the Army brokered a deal. If the Authority was willing to construct a new facility to relocate the existing commissary and PX onto nearby military property, then the Army would convey, in exchange for this new facility, the land and buildings of the existing commissary and PX to the FHRA. Anticipating construction costs, Boese asked if the Army would be willing to forgive the outstanding \$3 million in debt from the Authority to the Army for the original Fort Harrison acquisition. To the FHRA's surprise, the Army agreed. It was apparent from the beginning that the Army was willing to work on this matter, but it was clear that they were not willing to commit any actual cash, viewing the forgiveness of the debt as contribution enough.

The FHRA then reached out to the Defense Commissary Agency (DeCA) and the Army Air Force Exchange Service (AAFES). DeCA is the federal agency responsible for the operation, maintenance, and development of all the US military commissaries in the world. AAFES is the quasi-federal organization charged with the operation, maintenance, and development of all the US military PXs in the world. The two questions put to these two agencies were: Are they interested in new facilities at Fort Harrison? And what are they able to invest into the effort?

GLOSSARY OF ACRONYMS

AAFES – Army Air Force Exchange Service: Quasi-federal agency responsible for the operation, maintenance, and development of PXs around the world.

BRAC – Base Realignment and Closure: Federal law that periodically defines military assets to be reduced or disposed of.

DeCA – Defense Commissary Agency: Federal agency responsible for the operation, maintenance, and development of commissaries around the world.

DOD – Department of Defense

EDC – Economic Development Conveyance: Transfer of federal property to local entities for the purpose of economic development.

FHRA – Fort Harrison Reuse Authority: Quasi governmental entity charged with the redevelopment of former Fort Benjamin Harrison Army Base.

OEA – Office of Economic Adjustment: Office in the Department of Defense that oversees and provides technical assistance to communities and military bases identified for realignment and closure in the base realignment and closure law.

PX – Post Exchange: Name of military department stores operated by the Army Air Force Exchange Service.

TIF – Tax Increment Finance: Economic development tool that captures incremental growth in property taxes in a defined jurisdiction, with the proceeds used for investment that adds value to the jurisdiction.

TABLE 1

Agency	Army	AAFES	DeCA	FHRA
Gain	Dispose of surplus property	New PX	New Commissary	12 acres of land and title to buildings
	Close outstanding receivable			Forgiveness of \$3 million debt
	Offer new Commissary/PX to soldiers			
Contribution	Swap land for new building	Flexibility in design	Flexibility in design	Construct New Commissary/PX
	Forgive debt for new building			

The answer to the first question was “yes.” Once Fort Harrison was put on the BRAC list in 1991, investment and maintenance on the properties diminished considerably. While the operations continued to serve the entire State of Indiana, they did not have the expectation for maintenance that is placed on a commissary or PX located on an active military base. The answer to the second question, regarding the ability to invest in relocating the commissary and PX, was not as positive due to budget constraints for both agencies. The answer for financing the relocation of the commissary and PX would require the FHRA to take the lead and be innovative.

By late 2000, the framework of a deal was brokered. (Table 1 illustrates the outcomes of the agreement by party.)

- A. The commissary and PX would remain operational, without interruption, until the construction of new facilities is complete.
- B. The FHRA will construct, at its expense, a new commissary and PX located at the Fort Harrison Army Reserve Center, adjacently located to the west of the Fort Harrison Reuse Authority jurisdiction.
 - This puts the commissary and PX on military property.
 - The site for the new commissary and PX requires the demolition of the old Army hospital, also at the expense of the FHRA.
- C. Design of the commissary and PX will be done by the FHRA but must meet DeCA and AAFES standards and specifications.
 - Signing the agreement requires DeCA and AAFES review and approval of the construction documents.
 - Construction phases require the approval of DeCA and AAFES.
- D. In exchange for the completed commissary and PX on Army Reserve property, the US Army will swap title to the property of the current commissary and PX and forgive the \$3 million of debt owed by the FHRA for the original Economic Development Conveyance.

TECHNICALITIES OF THE NEGOTIATIONS

Once these general issues were resolved, the technicalities of the negotiations ensued. The author would like to suggest that these discussions were always positive, immediately fruitful, and resolved in a matter of weeks, but that would not be true. Coordinating the effort of so many agencies takes time. This was a complicated deal and discussions about the legal documents and construction drawings had their occasional bumps, not the least of which were the attacks on September 11th which changed federal funding priorities and building requirements. In addition, political changes in Indianapolis changed the appointments to the FHRA board and subsequently its executive director. Even the impacts of hurricane Katrina would eventually impact construction pricing once the project got underway.

One of the compromises of the arrangement called for the commissary and the PX to be combined into one physical structure. While the FHRA was willing to finance the construction of the project, building a structure with two separate entities under one roof is expensive. In Central Indiana, the average 70,000-square-foot grocery store can be built and finished for about \$3.5 million, not including land costs. Estimates for the commissary and PX project ranged from \$12.5 to \$14.5 million. One of the reasons for the high cost of construction was that the project, with exception to the roof and a common wall, had to have two of everything. This was the result of there being no acceptable way to DeCA and AAFES to share expenses. DeCA has a federally appropriated budget from the Congress and AAFES has a non appropriated budget – neither could share any

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of the building systems because there was no way to separate the bills and share funding of common expenses (i.e., lights, heat, water, etc.). When you add two of everything to a building's systems, the price increases. The FHRA needed to locally justify the investment.

The first thing available to the FHRA for funding was that now it would not have to pay the Army \$3 million. The FHRA immediately deferred this anticipated expenditure into the building budget. Second, the value of the land that the FHRA would receive was appraised at \$2.7 million. The sale revenue of the property would be directed to construction costs. While the FHRA could afford to finance the difference, it decided to seek additional federal assistance. In spring 2004, with assistance from members of the Indiana Congressional Delegation, a \$2 million appropriation via the Office of Economic Adjustment in the Department of Defense was wrangled.

Despite having the general terms of an agreement and financial picture resolved, the negotiation of the legal and construction documents had never been complete. DeCA and AAFES needed to have their design needs met, and the technicalities of the deal required massaging. Due to leadership changes at the FHRA, attention to this process had fallen dormant between June 2004 and February 2005.

The federal appropriation for the project was essential to completing the deal. The appropriation had an expiration date of September 30, 2005. If the parties involved wanted to accomplish this goal, the final details needed to be resolved by this date in order to keep the appropriation. Local leaders were not going to let \$2 million leave the community.

MEMORANDUM OF AGREEMENT

On September 14, 2005, a memorandum of agreement was signed at a ceremony held at Fort Harrison. Planners, architects, engineers, and lawyers had been working and meeting every week since February 2005 to pull together the final components of the deal. With an agreement in place, the Authority set out to finalize financing \$11.5 million in construction costs. While the sale of the old commissary and PX would eventually help pay for construction, the Authority needed cash on hand to complete the project and decided to issue bonds for this financing. The FHRA took some risk at this phase because it had worked all along under the premise that it would find the money to complete the project. It was not until October 2006, more than a year after the agreement was signed, that the FHRA officially secured all of the funding necessary to complete the project – a rather important detail left until the end.

On April 20, 2006, with demolition of the former Army hospital near complete, the FHRA hosted a groundbreaking ceremony for the New Commissary/Exchange at Historic Fort Harrison. On June 20, 2007, several hundred community leaders, veterans, and military personnel celebrated the grand opening of the New Commissary and PX. When complete, the project finished on time and \$500,000 under budget. In retrospect, the volume of design reviews and discussions aided the construction process. Change orders requested by DeCA or AAFES after September 14, 2005, would have to be funded by those agencies. Since neither had a budget for construction, change requests were few and far between.

One of the components that allowed for the success of the process was also the government's use of what was called the Government Representative. Because there were four federal agencies involved in the process (DeCA, AAFES, Army and Army Reserve), the FHRA wanted to have a single point of contact authorized to

One of the components that allowed for the success of the process was also the government's use of what was called the Government Representative. Because there were four federal agencies involved in the process (DeCA, AAFES, Army and Army Reserve), the FHRA wanted to have a single point of contact authorized to represent those four agencies.



This photo looks from the east, from the former PX site, at the pad ready site created from the demolition of the former commissary. This site is anticipated to be multi-story mixed used with first floor retail, office and residential above, on street parking, and walkable streets.

represent those four agencies. Had this step not been taken, the contractor would have been constantly bombarded by questions and situations of four different entities from four individuals, perhaps more. The Government Rep gave the FHRA cover and allowed for only the important matters to come through. The leverage held by the Government Rep was that payment requests from the contractor could not be funded without his signature on the request for payment. This insured that the government's review of work in process was thorough.

CONCLUSION

The end results were exactly what were anticipated when the idea was hatched. The military community in Indiana will continue to receive the Commissary and Post Exchange benefit in a state-of-the-art facility, located in Indiana's largest and most central population center. The Fort Harrison Reuse Authority has taken title to property located at the southern gateway of the final redevelopment phase of the former Fort Benjamin Harrison Army Base. The US Army has completed the Economic Development Conveyance for Fort Harrison, initiated in 1991 through the disposal of approximately 12 acres of land and buildings. And the US Army has released the mortgage outstanding from the original acquisition of Fort Harrison.

If the Authority was to go through this process again, the author would try to do two things differently. One would be to build the new facility on empty land. The final construction site required the environmental abatement and demolition of an old hospital. This requirement added five months to the construction process and more than \$900,000 to the total project budget. There were other sites in the Army Reserve enclave that could have been developed that did not require building demolition.

Another lesson learned in the process, but difficult to overcome, is in design. DeCA and AAFES have very specific design criteria. These agencies have their own engineering divisions and build commissaries and post exchanges on military bases around the world. This control was difficult for DeCA and AAFES to relinquish.

However, the author believes that cost savings could have been derived, if given the opportunity to be innovative in the combination of building systems and implementation of state-of-the-art building and energy practices used in the commercial sector today.

In the end, Fort Harrison has achieved a true win-win-win. The military personnel and their families are able to enjoy the commissary and PX benefits for years to come. This is important as Indiana has the 6th largest National Guard deployment in the country. From the stand point of the Army, they can officially close out Fort Harrison closure issues and focus attention and energy on other communities facing the difficult circumstance of base closure today. Fort Harrison is taking a giant leap forward in the ongoing redevelopment of this national success story. 🌐

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