Governors Island
Local, State, & Federal Governments Play Deal or No Deal

Jaan Elias
Alexandra Barton-Sweeney
Sharon Oster
Joel Podolny

On a helicopter flight to a ceremony at the United Nations in 1995, President Clinton and New York’s Senior Senator Daniel Patrick Moynihan flew across New York City’s lower harbor. According to Moynihan, the helicopter swooped by a small ice-cream cone shaped island and

Castle Williams, Fort Jay, the great lawns, the barracks -- the McKim Mead & White barracks -- all but leapt up at us. "What is that?" asked the president. "Governors Island, sir," I said. The federal government had occupied it free of charge for on to two centuries. There was a one-dollar exchange in the 1920’s. No matter.

Mightn’t we have it back?

Done! said the president. For one dollar. To be used for public purposes. Mostly public purposes, I demurred. At which moment we were setting down at the East River helipad.

I went to the ceremony, ducked the reception, and was off to our Manhattan office, where I called the mayor and the governor. They were out. But the deal was on.

But the transaction was hardly complete. Seven years later in 2002, differing valuations of the island and the plans to develop it were preventing agreement on the fate of the land. Six hundred yards off the shore of Manhattan, Governors Island had been a military base for 200 years. When the Coast Guard left in 1996, the island became a ghost town of landmark forts and houses as well as deteriorating outbuildings and playing fields. For some, this open land in the midst of New York Harbor represented an opportunity to build an extraordinary development. Others saw the potential liabilities; the island was connected to the mainland only by ferry and the buildings needed millions of dollars of maintenance each year just to keep from collapsing.

The political players had changed since President Clinton and Senator Moynihan’s helicopter ride. Clinton was no longer President, his wife had taken Moynihan’s seat in the Senate and Michael Bloomberg had replaced Rudolph Giuliani as New York’s Mayor. What remained the same was that the city, state, and federal government had yet to reach a deal. The question of what to do with the island and who should do it remained very much open. Indeed, there were those within the new Bush administration and the Congress who believed in scrapping Clinton and Moynihan’s deal and selling the island to the highest bidder be that the local government or a private developer.
Valuing the Island

The only market transaction for Governors Island occurred in 1627 when the Dutch bought it from the Manahatas Indians for two ax heads, some beads and nails. After the Revolutionary War, the island became an Army base that was used to protect New York harbor, train soldiers, and detain POWs. In 1966, the Army decided that the base no longer served its purposes and Governors Island was transferred to the Coast Guard. The island became the Coast Guard’s largest station, but in 1996, the Guard decided the expenses of running the station outweighed the benefits. Ferry service to the mainland alone cost the Coast Guard $6 million a year and the New York City location meant the cost of other services was also higher.

Notwithstanding President Clinton’s offer to sell the island for $1, other federal officials had placed a much higher value on the land. The Balanced Budget Act of 1997 required that the General Services Administration (GSA) dispose of surplus federal property at fair market value. The GSA had appraised the value of Governors Island at $500 million (later this number was revised downward to $300 million in 2000) and scheduled its sale for 2002. The $500 million figure took on importance as Congress had mandated that any increases in spending be offset with a corresponding increase in revenues. So Congressmen interested in promoting their own schemes came to view the sale of Governors Island as a convenient way to fund their projects. For example in 1999, the Senate Budget Committee approved legislation sponsored by a bipartisan group of Midwestern senators that would have allocated the proceeds from the sale of the island to expand federal crop insurance. While this effort was blocked by the full Senate, the value of Governors Island as an offset in the federal budget remained.

Real estate developers and the New York City mayor’s office considered the $500 million valuation to be a joke. In a 1997 interview with the New York Times, Joseph B. Rose, director of New York City’s Department of City Planning, observed:

Nobody who has any familiarity with the island, its condition, the constraints on development and the realities of the real estate market would take a number like $500 million seriously. When the Coast Guard said it was leaving, there was some speculation about large-scale real-estate development but when people saw what they were up against they headed for the hills. In fact, we haven’t encountered anybody who is willing to make an offer at any price, and it is not clear that the island could be sold.

Nonetheless, there was sentiment in Congress to sell the island to whoever would take it for whatever the market would bear. Congressmen from outside New York believed that 180 acres located adjacent to the most expensive real estate in the country could bring top dollar and help balance the federal budget. "There are plenty of people in the Congress who would sell it to Saudi Arabia if that meant a half-billion dollars," Senator Moynihan noted.

In arguing that the value of Governors Island was far lower than the federal estimates, local officials cited a number of constraints to developing the island. First, some of the land was protected. In 1996 as the Coast Guard was leaving, the New York Landmarks Commission designated the northern part of the island a historic landmark district. Therefore, buildings in this part of the island could not be substantially altered or torn down. However, these nearly 100-year old buildings were neither in pristine shape nor up to New York City building code. City officials had estimated that it would take $20–40 million to just stabilize the structures. Furthermore in 2001 just before leaving office, President Clinton designated the two forts on Governors Island as National Monuments and gave over their care to the National Park Service. This meant 22 acres of the island would be a federal park no matter what other uses were decided upon.
Despite the island’s proximity to Manhattan and Brooklyn, the near-impossibility of building a bridge to Governors Island imposed an important physical constraint on development. Planning Director Rose noted “We have examined the idea of building a bridge, and that would be incredibly expensive because it would go over important navigational channels. A bridge would require vertical clearance of 150 feet, and it just won’t be built.” Relying on boats to ferry materials and workers to the island would make construction costs 1.5 to 2 times higher than on the mainland. Once the public started using the island, they too would need ferry service. But New Yorkers seemed wedded to the convenience of their existing mass transport system. “Most New Yorkers don’t want to live or work anywhere they can’t get to by subway,” noted one observer of the real estate scene.

One final constraint was that few New Yorkers knew of Governors Island and even fewer had ever visited it. As a military base, the island had a low profile compared to its neighboring islands in New York Harbor: Liberty Island - the home of the Statue of Liberty and Ellis Island - the famed processing center for millions of immigrants. While the island did sport spectacular views of the harbor and the skyline, it was simply not on the mental map of New Yorkers and tourists.

The federal government could place additional constraints in transferring Governors Island to the state and/or the city. Most observers agreed that the state and city would have to outline some significant public uses to allow the island to be sold for a nominal fee and not be subject to the GSA’s mandate to sell surplus land to the highest bidder. On the other hand, the city and state could impose constraints if the federal government sold the site to private developers. Senator Hillary Rodham Clinton noted potential buyers would be discouraged by the city’s power to create zoning and regulatory obstacles to development. "It would be a very tough road to buy that island for commercial purposes [from the federal government]," she said. "And everybody knows that."

Possible uses for Governors Island

Most observers acknowledged that the costs of converting Governors Island to public use were probably too high for the city and state to bear alone. A recession had started in 2001 and the finances of both the state and city had been hurt. State budget officials expected that tax revenues in the fiscal year ending March 31, 2003 would be $2 billion less than planned. A gap four to five times greater loomed between revenue and projected spending in the 2003-4 fiscal year. The city had closed a $5 billion budget gap in 2002 by trimming spending and raising fees and taxes, but city budget officials felt that additional cuts and revenue increases would be required to have a balanced budget in the next fiscal year.

Therefore, both state and city officials were looking at mixed uses for Governors Island where the revenues from some private development would offset the costs of improving infrastructure and subsidizing public use development. Among the uses being considered for the island were:

- **Casino** -- In 1997, Mayor Giuliani announced that he favored putting a five-star, Monaco-like casino on 25 acres of the island. He noted:

  If land-based gambling comes here -- and something is going to happen, I suspect -- it’s better to look at one central location where you can control it. You don’t want to have it sprouting up all over the place. And having it on an island keeps it away from anyone and everyone walking in off the street because they have $5 to gamble. It makes it a destination location… I think the city and the state have to think competitively here. New Jersey and Connecticut are making a lot of money off New Yorkers who go there and gamble. And if the state is considering allowing gambling in other parts of the state, I don’t want to see New York City left out.”
A Coopers & Lybrand study showed that the casino would bring in $57 million a year in revenue to the city’s coffers and thereby help finance other public use of Governors Island. The study also argued that a casino would be the single most profitable use of the land. However, most other government officials considered the casino idea far-fetched. The state constitution would have to be altered to allow gambling and there was overwhelming opposition to gambling in the state legislature. Similarly, most observers believed the Congress would never allow the transfer of Governors Island to the city, if the city were to put a casino on the island.

- **Housing** - Despite the recession in 2002, housing prices in New York City continued to skyrocket as demand outpaced the available supply. Many felt that Governors Island could be a prime location for adding a whole new neighborhood to New York City. One developer estimated that the island could become home to 75,000 residents. But local planning groups argued against the development of high-density housing that would severely overburden ferryboats to Governors Island and cut down on access by people who want to use the island for recreation.

- **Hotel, Spa and Conference Center** - A number of individuals raised the possibility of locating a hotel, conference center and/or spa on Governor’s Island. Liggett Hall, the central building of the army base, was an enormous structure of 441,772 square feet that could be renovated into a space that could host a convention. (Before the construction of the Pentagon, Liggett Hall was the largest building constructed by the U.S. armed forces.) However, most of Manhattan’s hotels were located in the midtown area near New York’s major tourist attractions and corporate headquarters. Many hoteliers believed that the Governors Island location would not be much of a draw for business or leisure travelers.

- **Amusement Park** - There were individuals who urged the city to consider allocating space on the island for construction of a theme park. Indeed, developers from Tivoli Gardens in Copenhagen Denmark had toured the island and considered construction of an “old-time” amusement park. Some suggested that the older buildings within the historic section of the army base could be turned into the 20th century equivalent of Colonial Williamsburg.

- **Academic** - To many, the buildings in the historic part of the island suggested a college campus. Indeed, City Planning Director Rose observed, “The island is designed as a campus-like setting, and the easiest transition for its historic buildings would be to some kind of educational complex. What is required would be a large institution that would find the island attractive and would have residential and facility needs sufficient to justify a large investment.” Three universities, Columbia, New York University (NYU) and the City University of New York (CUNY) had at various times expressed interest in locating classrooms and/or dormitories to the island as their Manhattan locations constrained expansion. However considering the state of the older buildings, this would require significant investment on the part of the universities. In keeping with the academic theme, Mayor Bloomberg had raised the possibility of locating public high schools on the island.

- **Museums** - New York City was home to many of the world’s great art museums; many of which had collections that outstripped their facilities to display them. It was suggested that museums like the Metropolitan Museum of Art could establish satellite locations on Governors Island. Indeed, one proposal suggested that the island could be the location for an outdoor sculpture garden for the Guggenheim. The Guggenheim could also build a series of
self-contained indoor exhibits, each with a single piece of monumental sculpture by artists like Richard Serra.\footnote{19}

- **Nonprofit offices** - Others suggested that the neat little landmark buildings of the older section of the island would make wonderful office space for various nonprofit entities in the city. There were precedents for this kind of development. In San Francisco, a former army base within the city, the Presidio (approximately eight times larger than Governors Island), was converted to civilian use and many of the former barracks were converted into office space for nonprofits. However, the Presidio Trust received an annual subsidy of about $25 million from the federal government that was used to underwrite the rehabilitation of the office space. The Presidio Trust also had been able to convert some of the officer quarters at the Presidio into residential property from which it derived income.

**Political Forces**

In 2002, the federal government also found itself strapped. The recession combined with tax cuts and increased military spending had turned record surpluses into record deficits. Governors Island was costing approximately $10 million a year in upkeep; not a large amount considering the size of the federal budget, but a considerable expense for the maintenance of an empty island that was generating no benefits.

Many felt that the political climate favored those New Yorkers intent on gaining the island for $1. The events of 9-11 had engendered a great deal of national sympathy for the city and the state. The new president, George H.W. Bush, was a Republican as was the mayor of New York City, Michael Bloomberg and the governor of New York State, George Pataki. Furthermore, Pataki was up for re-election in November of 2002 in a state that tended to vote for Democrats (both U.S. senators from New York were Democrats).

Local media was certainly in favor of having the city and the state take the lead on redeveloping Governors Island. The *New York Times* ran an editorial approximately once a year urging state and city forces to come up with a plan for the island. In 1997, its writers opined:

Open space with waterfront access is a rare thing in New York City, so when someone offers an accessible 173-acre island for less than the price of a cheeseburger, responsible officials should jump at it…

There are several good reasons why it would not make economic sense for Congress to sell. For one thing, it may never find a buyer at $500 million or even half that, since developers are notoriously leery of island properties. Also, while searching for a buyer, the Government would be responsible for a high-maintenance lemon with heavy operating costs…

There is no shortage of ideas about what to do with this acreage…[T]he planning should be guided by two principles. First, in a manner consistent with its esthetic and recreational value, the island should be self-sustaining, so that it does not become a drain on municipal resources. Large-scale private development should be ruled out, but the city needs to find one or more institutions -- a college, for example -- to lease the island’s historic buildings, thus providing for their upkeep.

The second principle is public access. That part of the island not devoted to institutional activity should be made accessible to all New Yorkers. There could be
recreational facilities, playing fields, perhaps a marina. Whatever the mix, Governors Island must be seen as an opportunity to enrich the city's quality of life.\textsuperscript{20}

However, Senator Moynihan, the man who started all the fuss by coaxing President Clinton into a deal, remained sanguine about developments. Unlike the era which saw state and local government plan massive developments like the Catskill and Delaware reservoir systems, Jones Beach and Adirondack Park, the current crop of officials had no stomach for taking on financing large projects. The senator told the \textit{Times}:

“Some time in the last generation, public works ceased to be the mark of successful, progressive government in New York,” he said. And until that changes, the state will remain adrift, he said, “in an entropic trance.”\textsuperscript{21}

This case has been developed for pedagogical purposes from published sources with help from Leslie Koch and GIPEC (Governors Island Preservation and Education Corporation). The case is not intended to furnish primary data, serve as an endorsement of the organization in question, or illustrate either effective or ineffective management techniques or strategies.

Endnotes

1. Director of Case Study Research, Yale School of Management

2. Case writer, Yale School of Management

3. Frederic D. Wolfe Professor of Management and Entrepreneurship & Director of the Program on Social Enterprise, Yale School of Management

4. Dean & William S. Beinecke Professor of Management, Yale School of Management


