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### Inter-Departmental Memo

To: Hon. Judith A. Jacobs, Presiding Officer  
Hon. Peter J. Schmitt, Minority Leader  
All Members of the Rules Committee

From: Eric C. Naughton, Director  
Legislative Budget Review

Date: March 27, 2006

Re: Cradle of Aviation Museum

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The Cradle of Aviation Museum (the Cradle) in its fourth full year of operation is on unstable financial ground. On May 10, 2005, the Office of Legislative Budget Review (OLBR) issued an update on the operations of the Cradle of Aviation Museum. In that analysis OLBR projected FY 2004-05 year-end expenses of \$5.1 million and revenues of \$3.5 million, for a net operating loss of \$1.6 million. Actual June 2005 year-end results were on par with what was anticipated. The Cradle ended the year with expenses of \$5.1 million, revenues totaling \$3.4 million and a net operating loss of \$1.7 million. In the conclusion of that report I stated the following:

Although the management team has developed new strategies and offers greater supporting detail to achieve old initiatives, the ultimate goal of a self sustaining facility may never come to fruition. Unless fundraising and attendance are significantly improved, rather than receiving 3% of gross profits, as was envisioned in the operating agreement, the County may soon need to embrace the idea of budgeting funds to assist the facility's operations.

That conclusion has proven to be prophetic. On February 17, Sean A. Fanelli, Chair of Museums at Mitchell (MAM) wrote to Christopher Hahn, Chief Deputy County Executive, "Absent receipt of the \$500,000 in county support we expected to receive in January 2006, the Museum will be unable to

meet payroll and will be forced to close its doors in March.” As a result, there is currently before the Legislature a proposed agreement that seeks additional funds for the Cradle and the forgiveness of \$2.5 million of debt if certain goals are achieved.

For the FY 2005-06 fiscal operating year the Cradle is projecting a net loss of \$865,000, which would be a decrease in the annual loss by \$847,000 in comparison to the prior year’s results. Included in the FY 2005-06 revenue is \$250,000 of the \$500,000 in County support as part of the proposed agreement between the County and the Cradle. The remaining \$250,000 is scheduled to be received before the end of the calendar year, which would be part of the Cradle’s FY 2006-07 revenue. In addition to the County’s support, remaining factors contributing to the reduced shortfall include elimination of the utility expenses (\$168,000), increased attendance projections and greater income from contributions, sponsorships and museum store sales. The Cradle expects admission collections to increase by approximately \$350,000 this year. Combined revenues from contributions and sponsorships are anticipated to increase by \$292,000. The museum’s store has been re-opened and is expected to generate \$300,000 in gross revenue this year.

Besides the \$2.5 million debt the Cradle owes the County, there is also an outstanding bank loan of \$1.7 million. Although the Cradle currently pays the interest on the loan, the principle payments are past due. The Cradle is working with bank representatives to extend the payment period of the loan to ten years.

**The Proposed Three Year Agreement:**

The major terms of the proposed agreement are as follows:

- Under the new contract MAM acknowledges a debt of \$2.5 million owed to the County, which it is unable to pay.
- The County will provide a grant to the Cradle for operating expenses in the sum of \$500,000 to be paid over four installments in FY 2006. The payment schedule is as follows:

<b>Date of Installment</b>	<b>Amount</b>
Commencement Date	\$250,000
7/15/2006	\$100,000
10/15/2006	\$100,000
1/15/2007	<u>\$50,000</u>
<b>Total</b>	<b>\$500,000</b>

- On or before November 1, 2006, MAM shall provide the County with a revised four year business and financial plan that is acceptable to the County, at the County’s sole discretion.
- MAM will hire, at MAM’s sole expense, a professional interim museum director (the “Interim Director”), to work for a period of at least six months commencing on or before May 1, 2006. The role of the Interim Director shall be to evaluate, support and improve operations and performance of MAM and the Museum. The Interim Director shall report to and be directed by the Board of Directors of MAM. However, any information prepared by or obtained by the Interim Director shall be made available to the Parks Department. Additionally, the

Department shall have the right to meet with the Interim Director and request periodic status updates and/or reports relating to the performance of MAM and the Museum.

- Any terms and conditions contained in the MOA that are not specifically addressed in this Agreement shall remain in full force and effect, pending the execution of a Successor Agreement.
- In the event that MAM fails to satisfy the conditions for a particular installment, the County has the right to pay the installment, at the County's sole discretion, if, MAM provides documentation, acceptable to the County in all respects, justifying such failure. The County shall not be obligated to pay any installment unless and until all conditions shall have been satisfied. Additionally, the County is under no obligation to provide the entire grant unless all conditions and performance goals have been satisfied in accordance with this Agreement.

The performance goals are as follows:

- Identify and secure a minimum of ten new corporate members before the close of the current fiscal year and increase the level to 30 corporate memberships by the end of the 2006-2007 fiscal year.
- Attain total of 1,000 individual and family members by the end of the current fiscal year.
- Sell 10 seats through the "You can own an IMAX seat" program by the end of the current fiscal year and 20 seats during the 2006-2007 fiscal year.
- Raise a minimum of \$20,000 through a 2006 year-end Annual Appeal.
- Explore the feasibility of establishing this "special level" group of contributors/supporters.
- Obtain, in addition to County funding, Foundation and Government support at a minimum of \$100,000 annually.
- Generate a net profit of at least \$185,000 from the museum's prime fund raising event.
- Establish a mechanism for planned giving to museum before the end of the calendar year.

## Current Financials

	7/04- 6/05	7/05-6/06	7/05-12/05	7/04-12/04	Variances	
	Actuals	Projection	6 Mo Actuals	6 Mo Actuals	Projection to Prior Year Actuals	6 Mo Act 05 - 6 Mo Act 04
<b>REVENUE AND SUPPORT</b>						
Admission Fees	\$1,340,775	\$1,612,529	\$716,436	\$637,897	\$271,754	\$78,539
Management Fee	\$125,000	\$125,000	\$0	\$0	\$0	\$0
Donated Facilities	\$1,013,400	\$1,013,400	\$0	\$0	\$0	\$0
Honor Roll Contributions	\$7,000	\$8,625	\$3,875	\$2,625	\$1,625	\$1,250
Unrestricted Contributions	\$48,255	\$224,979	\$17,921	\$38,821	\$176,724	(\$20,900)
Restricted Contributions	\$63,000	\$68,951	\$18,740	\$11,000	\$5,951	\$7,740
Program Sponsorship	\$1,900	\$13,000	\$0	\$0	\$11,100	\$0
IMAX Seat Sponsorship	\$3,000	\$9,000	\$0	\$2,000	\$6,000	(\$2,000)
Memberships	\$6,000	\$60,223	\$16,934	\$6,000	\$54,223	\$10,934
Gala Benefit	\$192,736	\$307,002	\$306,632	\$189,136	\$114,266	\$117,496
Food Service Commissions	\$93,006	\$96,302	\$48,803	\$46,865	\$3,296	\$1,937
Museum Store Commissions	\$8,697	\$0	\$0	\$8,697	(\$8,697)	(\$8,697)
Deith Simulator Commissions	\$14,902	\$14,987	\$6,494	\$7,726	\$85	(\$1,232)
Museum Store Products	\$0	\$0	\$0	\$0	\$0	\$0
Catering Events	\$134,008	\$143,048	\$82,253	\$84,749	\$9,040	(\$2,496)
Museum Resource	\$97	\$0	\$0	\$97	(\$97)	(\$97)
Building Use	\$116,200	\$125,608	\$67,530	\$80,425	\$9,408	(\$12,895)
Event Vendor Commissions	\$0	\$18,956	\$10,654	\$0	\$18,956	\$10,654
Educational Programs	\$15,191	\$9,813	\$4,349	\$9,969	(\$5,377)	(\$5,619)
Grants/County Support	\$250,000	\$288,178	\$30,910	\$0	\$38,178	\$30,910
Miscellaneous Income	\$46,445	\$59,775	\$58,893	\$1,943	\$13,330	\$56,950
Store Sales	\$0	\$309,224	\$154,810	\$0	\$309,224	\$154,810
Store Cost of Sales	\$0	(\$150,518)	(\$76,387)	\$0	(\$150,518)	(\$76,387)
<b>Total Revenues</b>	<b>\$3,479,612</b>	<b>\$4,358,080</b>	<b>\$1,468,845</b>	<b>\$1,127,950</b>	<b>\$878,468</b>	<b>\$340,896</b>
* This is an off-setting accounting entry, which represents the value of the land the Cradle is situated on.					<i>Source: The Cradle of Aviation</i>	

Through December 2005, the mid-point of the Cradle's current fiscal year, actual admissions totaled 74,162 which is 9,451 more than in the same time period last year. The Cradle's six month actual admissions have them on pace to remain in-line with prior year's total collections. Even though the task of increasing attendance remains an issue, considering the severe attendance decline for each of the past four years (see attendance history illustration) staying on par with the previous year's attendance is a positive step.

Attendance History	
Year	Total Admissions
2002-03	246,415
2003-04	184,469
2004-05	139,339
2005-06*	104,726

\*Attendance through February 2006

The management at the Cradle is actively looking outside the box for new revenue sources. For example, there are many smart initiatives in motion at the Cradle which were implemented during the current year. The museum store, which was closed most of last year re-opened on April 22, 2005. The entire old inventory was returned and the Cradle re-stocked the store with its own merchandise. Updating the inventory and running the store in-house have enabled the Cradle to change the pricing structure to include lower priced items. The overall plan for the store seems to be successful. Monthly gross receipts from the store

total between \$25,000 and \$30,000. Through better promotion and marketing the Cradle's annual Gala had a net profit of \$275,000, which represents a 62% increase compared to the previous year's total of \$105,000.

New to the Cradle this year is a small play area located off the main entrance. This new space is called the Junior Jet Club and is an area where young children can play with model planes, watch television programs, draw and partake in other activities. This area was constructed for a total cost of only \$500, using mostly items that were on hand. Since there is no additional charge for use of this area it does not directly impact revenues. The Cradle hopes these types of interactive activities will spur repeat visitation.

The Cradle's FY 06 expense forecasts are in line with the prior year's actuals. Building maintenance expenses for the year are budgeted to be \$140,000 less than the prior year; the reduction is partly due to hiring a new vendor for building maintenance. This decrease will be off-set by increased full-time staffing cost. Although full-time staffing was reduced by two positions to 25, the full-time staffing budget will increase by \$100,000. Part-time staffing at the Cradle appears to be substantially understated. For the current year the Cradle budgeted \$240,000 to cover part-time staffing cost.

The advertising budget of \$150,000 for the FY 2005-06 year was exhausted after the first six months of operation. The Cradle's new marketing plan requires more funding than what had been used in previous years.

	7/04- 6/05	7/05-6/06	7/05-12/05	7/04-12/04	<b>Variances</b>	
	<u>Actuals</u>	<u>Projection</u>	<u>6 Mo Actuals</u>	<u>6 Mo Actuals</u>	Projection to <u>Prior Year Actuals</u>	6 Mo Act 05 - <u>6 Mo Act 04</u>
<b>EXPENSES</b>						
Payroll Expense	\$1,727,471	\$1,937,599	\$1,004,542	\$797,533	\$210,128	\$207,009
Bank Charges	\$26,131	\$36,122	\$16,154	\$12,046	\$9,990	\$4,108
Interest Expense	\$135,763	\$153,219	\$72,752	\$67,827	\$17,456	\$4,925
Accounting Services	\$35,687	\$77,010	\$53,730	\$16,187	\$41,323	\$37,543
Public Relations Services	\$50,074	\$50,339	\$26,787	\$27,174	\$265	(\$386)
Marketing Services	\$23,161	\$23,254	\$7,254	\$5,262	\$93	\$1,992
Advertising	\$149,282	\$200,288	\$151,142	\$50,879	\$51,006	\$100,263
Office Supplies	\$15,821	\$21,651	\$6,060	\$4,053	\$5,830	\$2,007
Postage	\$51,506	\$49,812	\$21,168	\$17,250	(\$1,694)	\$3,918
Insurance	\$144,569	\$130,160	\$67,620	\$71,423	(\$14,409)	(\$3,803)
Travel	\$31,701	\$27,448	\$11,728	\$19,989	(\$4,253)	(\$8,262)
Gala Expenses	\$85,841	\$48,942	\$48,942	\$85,841	(\$36,899)	(\$36,899)
Development Expenses	\$0	\$10,772	\$2,347	\$0	\$10,772	\$2,347
Visitor Services Program Exp	\$5,823	\$4,086	\$1,470	\$5,630	(\$1,737)	(\$4,160)
Uniform Expense	\$1,318	\$746	\$36	\$778	(\$572)	(\$742)
Volunteer Program	\$12,205	\$5,870	\$785	\$1,234	(\$6,336)	(\$449)
Educational Program Expenses	\$24,654	\$28,746	\$9,080	\$10,660	\$4,092	(\$1,580)
Exhibit Fabrication	\$40,094	\$39,921	\$25,325	\$20,602	(\$173)	\$4,723
IMAX Maintenance Fee	\$264,470	\$210,230	\$110,005	\$132,314	(\$54,240)	(\$22,309)
Film Rental Fee (7%)	\$157,522	\$226,518	\$104,421	\$88,609	\$68,995	\$15,812
SimEx Supplies	\$114,867	\$107,340	\$46,815	\$56,464	(\$7,527)	(\$9,649)
Building Maint. Services	\$455,738	\$219,343	\$128,324	\$247,564	(\$236,395)	(\$119,240)
Depreciation Expense	\$474,690	\$475,280	\$236,460	\$236,460	\$590	\$0
Doubtful Accounts Expense	\$25,000	\$0	\$0	\$0	(\$25,000)	\$0
Support Services	\$125,000	\$125,000	\$0	\$0	\$0	\$0
Donated Facilities	\$1,013,400	\$1,013,400	\$0	\$0	\$0	\$0
<b>Total Expenses</b>	<b>\$5,191,786</b>	<b>\$5,223,094</b>	<b>\$2,152,947</b>	<b>\$1,975,777</b>	<b>\$31,308</b>	<b>\$177,170</b>
<b>NET INCOME</b>	<b>(\$1,712,174)</b>	<b>(\$865,014)</b>	<b>(\$684,102)</b>	<b>(\$847,828)</b>	<b>\$847,160</b>	<b>\$163,726</b>
* This is an off-setting accounting entry, which represents the value of the land the Cradle is situated on.					<i>Source: The Cradle of Aviation</i>	

Even though the Cradle’s financials are still in the red and budgeted admission collections, contributions and sponsorships appear optimistic, there have been a host of small victories since our last update to the Legislature which indicates the facility is moving in the right direction. OLBR has been critical in its analysis of the Cradle’s performance during the past three years, particularly in its efforts to generate the revenue required to sustain its operations. Last year, the Board of Trustees hired two key executives: Eric Ricioppo, President and Andrew Parton, Vice President of Marketing. They were charged with spearheading the endeavor to increase revenues and reverse what had been a steady decline in attendance. Ricioppo and Parton responded to the challenge by creating and implementing a number of programs and services including:

- Taking over the operations of the museum store
- Creating a focused marketing campaign to attract out-of-county visitors
- Creating marketing partnerships and cross-promotional programs with Long Island businesses, hotels, restaurants, shopping centers, and sporting venues and events
- Expanding outreach to libraries, civic organizations, educational conferences
- Initiating a rack card tracking system to profile visitors

- Implementing the first ever Boy and Girl Scout sleepovers
- Introducing a Membership Program
- Creating and promoting a summer evening IMAX movie schedule
- Opening Mondays during the summer
- Creating a Junior Jet Club for toddlers
- Expanding the guided school programs
- Creating incentives to increase September attendance for schools and seniors
- Increasing building rentals
- Initiating the first ever Annual Appeal
- Implementing a process for accepting online donations
- Enhancing the Annual Gala
- Aggressively pursuing exhibit funding, including submitting the first ever federal appropriations request

### **The Cradle's Outlook**

The marketing plan for the Cradle is beginning to come to life. Many of the initiatives which were presented to OLBR last year have since been implemented and are starting to reap rewards. Although these results are not sufficient to sustain the facility, the progress made thus far is encouraging. However, even with County assistance, OLBR is projecting that the deficit for FY 2005-06 will be approximately \$1.1 million. Our estimate and MAM's differ in the area of admissions revenue and utility expense. MAM, although obligated as per the original MOA is not including the utility expense in its projection because it has not paid this cost in the past.

<b>Cradle of Aviation Multi-Year Plan</b>	<i>Projected</i>	<i>Plan</i>	<i>Plan</i>	<i>Plan</i>
	<i>7/05 - 6/06</i> <i>Current Yr.</i>	<i>7/06 - 6/07</i> <i>Year 2</i>	<i>7/07 - 6/08</i> <i>Year 3</i>	<i>7/08 - 6/09</i> <i>Year 4</i>
<i>Total Expenses</i>	\$5,223,094	\$5,072,509	\$5,212,641	\$5,359,603
<i>Total Revenue</i>	\$4,358,080	\$4,866,400	\$5,139,200	\$5,439,280
<b><i>Net Income</i></b>	<b><i>(\$865,014)</i></b>	<b><i>(\$206,109)</i></b>	<b><i>(\$73,441)</i></b>	<b><i>\$79,677</i></b>
<i>Admissions</i>	\$1,600,000	\$1,870,000	\$2,057,000	\$2,262,700
<i>Contr./Spons./Grant</i>	\$250,000	\$625,000	\$750,000	\$1,000,000
<i>County Support</i>	\$250,000	\$375,000	\$250,000	\$0

The proposed agreement requires that on or before November 1, 2006, MAM shall provide the County with a revised four-year business and financial plan that is acceptable to the County, at the County's sole discretion. Their current four-year plan (see above) projects that revenues will exceed expenses in FY 2008-09 based on receiving \$1 million from a combination of contributions, sponsorships, grants and County support. County support would start at \$500,000 in the current fiscal year decreasing to \$375,000 in FY 2006-07, \$250,000 in FY 2007-08 and \$0 in FY 2008-09. This plan was also predicated on revenue from admission fees growing by 10% a year. At best, the plan seems tremendously optimistic and in some capacities unachievable. FY 2005-06 is the first year that revenue from admission fees may not decrease in spite of prior rate increases. Therefore, at this point it is out of the realm of possibility to conceive the growth projected in the out-years.

While it may be possible for MAM to achieve the targets in the proposed agreement, the development and implementation of a conservative plan are essential. It will be interesting to see if the plan developed by MAM has realistic estimates and if there will be a reliance on a County subsidy in the out-years. I would recommend that the proposed agreement include as another target, the successful restructuring of the \$1.7 million loan. It has been suggested that this is one of the major reasons that the County should forgive the \$2.5 million it is owed. The loan restructuring is going to be critical to the Cradle's operations. If the bank demands full repayment now, then the proposed subsidy from the County will not benefit the operations.

At this point it is obvious that self-sustainability is not in the Cradle's near future and may never be realized. The Cradle will not survive without consistent financial assistance from the private and/or public sectors. The proposed agreement is a short term solution. The next six months should be used to determine whether:

1. the Cradle should remain open,
2. there should be a new entity to manage the Cradle
3. there will be on-going financial support from the County and at what level.

Although these are policy questions that I cannot answer, my staff and I are here for whatever assistance you may need.