



OFFICE OF LEGISLATIVE  
BUDGET REVIEW

## NASSAU COUNTY LEGISLATURE

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### Inter-Departmental Memo

To: Hon. Lisanne Altmann, Chairperson  
All members of the Budget Review Committee

From: Eric C. Naughton, Director  
Legislative Budget Review

Date: May 10, 2005

Re: Cradle of Aviation 3<sup>rd</sup> Quarter Report FY04-05

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Attached is a third quarter report for the Cradle of Aviation. The last report that my office sent out was "Spotlight on the Cradle of Aviation" on March 26, 2004.

I would like to thank President Eric Ricioppo, Chief Operating Officer Claudia Oakes, Vice President of Finance and Administration Anne Murphy, Vice President of Marketing Andrew Parton, and Museums at Mitchel Treasurer Ron Cooper, for their cooperation in preparing this report.

This report will also be available on the Office of Legislative Budget Review's website: [www.co.nassau.ny.us/olbr](http://www.co.nassau.ny.us/olbr).

cc: Sean Fanelli, Museums at Mitchel Chairman  
Eric Ricioppo, President  
Claudia Oakes, Chief Operating Officer  
Anne Murphy, Vice President of Finance and Administration  
Andrew Parton, Vice President of Marketing  
Ron Cooper, Museums at Mitchel Treasurer  
Michael Klein, Deputy County Executive

## Cradle of Aviation Update

The Cradle of Aviation Museum, in its third full year of operation, is undergoing significant managerial, contractual and operational changes. The purpose of this report is to update the “Spotlight on the Cradle of Aviation”<sup>1</sup> that was released by the Office of Legislative Budget Review (OLBR) on March 26, 2004. At that time, year end expenses of \$4.8 million and revenues of \$3.7 million were projected, for a net operating loss of \$1.1 million. Since that report was issued the Cradle closed its books for the fiscal year ending June 2004. Actual year end results were on par with what was anticipated. The Cradle ended the year with expenses of \$5.1 million, revenues totaling \$3.9 million and a net operating loss of \$1.2 million.

For the 2005 fiscal operating year the Cradle has budgeted a net loss of \$1.4 million. The current forecast has increased the anticipated deficit to \$1.6 million due to lower than expected revenues. Compared to the prior operating year revenue is expected to decrease by \$352,116 or 9%. The decrease can be attributed to admissions revenue which is anticipated to decrease by nearly \$0.5 million or 26%, to \$1.3 million. The hefty reduction in the admissions tally is expected to be partially offset by increases in governmental grants and contributions.

REVENUE AND SUPPORT	Budget	7/1/04- 6/30/05 Forecasted Year	7/1/03- 6/30/04 Prior Year	Variances	
				Budget vs. Forecasted Yr.	Forecasted Yr. vs. Prior Yr.
Contributions	173,000	198,275	118,285	25,275	79,990
Donated facilities use	1,013,400	1,013,400	1,013,400	0	0
Admissions	1,500,000	1,312,072	1,777,550	(187,928)	(465,478)
Governmental grants	250,000	250,000	128,336	0	121,664
Management fees	125,000	125,000	125,000	0	0
Educational Program Fees	15,000	15,316	9,527	316	5,789
Gala Event	250,000	192,736	247,390	(57,264)	(54,654)
Food service	95,000	92,507	89,810	(2,493)	2,697
Museum shop	23,000	17,197	27,651	(5,803)	(10,454)
Catering	150,000	141,653	129,470	(8,347)	12,183
Building use	150,000	131,200	151,350	(18,800)	(20,150)
Miscel income	12,000	16,746	40,449	4,746	(23,703)
<b>Total revenue and support</b>	<b>3,756,400</b>	<b>3,506,102</b>	<b>3,858,218</b>	<b>(250,298)</b>	<b>(352,116)</b>

\*Provided by the Cradle of Aviation

The Cradle’s FY 05 expense forecasts are in line with the prior year’s actuals. The expense chart shows that a \$33,283 increase is expected in expenditures for the forecasted year. This is largely due to utility expenses. Under the current operating agreement the Cradle’s responsibility for utility expenses did not start until January 1, 2004, leaving six months or \$84,000 of utility expenses to be paid in FY 04. The County paid the other 50%. This year the full annual expense of \$168,000 is included in the Cradle’s budget.

<sup>1</sup> <http://www.co.nassau.ny.us/olbr/pdf/Mar262004-SpotlightOnCradle.pdf>

EXPENSES	Budget	7/1/04- 6/30/05 Forecasted Year	7/1/03- 6/30/04 Prior Year	Variances	
				Budget vs. Forecasted Yr.	Forecasted Yr. vs. Prior Yr.
Salaries and related expenses	1,647,000	1,712,466	1,693,384	65,466	19,082
Supplies	20,000	17,833	20,268	(2,167)	(2,435)
Donated facilities use	1,013,400	1,013,400	1,013,400	0	0
Equipment rental/building maint.	348,000	316,125	288,862	(31,875)	27,263
Utility expenses	168,000	168,000	84,000	0	84,000
Educational expenses	25,000	19,896	17,732	(5,104)	2,164
Gala expense	90,000	85,841	95,192	(4,159)	(9,351)
Film rental fees	170,000	155,019	161,029	(14,981)	(6,010)
IMAX lease and maintenance	265,000	264,418	263,122	(582)	1,296
Simulator software and film rental	90,000	90,000	92,520	0	(2,520)
Insurance	145,000	145,187	134,597	187	10,590
Interest expense	125,000	129,881	141,230	4,881	(11,349)
Advertising	130,000	129,542	172,874	(458)	(43,332)
Marketing services	40,000	27,762	49,557	(12,238)	(21,795)
Meeting conference and travel	30,000	32,225	28,054	2,225	4,171
Postage and printing	45,000	53,650	49,018	8,650	4,632
Professional fees	36,000	34,187	29,363	(1,813)	4,824
Public relations services	55,000	54,774	51,053	(226)	3,721
Support services reimbursement	125,000	125,000	125,000	0	0
Uniforms	1,000	1,387	566	387	821
Visitor services program	6,000	5,960	5,341	(40)	619
Volunteer program	12,000	12,239	3,848	239	8,391
Curatorial and exhibits	37,000	36,436	79,119	(564)	(42,683)
Bank/Credit Card Charges	36,000	25,869	29,795	(10,131)	(3,926)
Depreciation	475,000	475,280	470,170	280	5,110
<b>Total expenses</b>	<b>5,134,400</b>	<b>5,132,377</b>	<b>5,099,094</b>	<b>(2,023)</b>	<b>33,283</b>
<b>NET INCOME</b>	<b>(1,378,000)</b>	<b>(1,626,275)</b>	<b>(1,240,876)</b>	<b>(248,275)</b>	<b>(385,399)</b>
*Provided by the Cradle of Aviation					

As of March 31, 2005 full-time staffing at the Cradle was 24 employees. This represents an increase of three employees compared to the same time last year. During the same period, part-time staffing was reduced by three employees to a total of 37. One employee switched from part-time to full-time employment. By the Cradle's estimate, there will be a savings by making this position full-time. By creating the new full time position the Cradle will bring work which was previously contracted out in house. The staff is also assisted by 195 volunteers.

Two of the three new full-time employees will play important roles in helping the Cradle approach its financial goal of becoming self-sustaining. In February of 2005 the Museum hired Eric Ricioppo as President of Operations and Andrew Parton as Vice President of Marketing, a newly created position. Mr. Ricioppo will focus mainly on big picture initiatives, fund raising and ensuring that the vision of the Cradle is fulfilled. Mr. Parton is charged with the daunting task of turning around attendance

In March of 2005 Mr. Parton presented the Cradle's new marketing plan to OLBR. The plan included new ideas for generating revenue sources. Several of these are discussed later in this report. The new plan also has some ideas which appear to be more detailed than had been presented previously. One example of these previously presented ideas is the coding of discount pamphlets to help identify where patrons are coming from. By coding the pamphlets, Museum officials will now know where to focus or redirect their resources.

In September of 2004 the Cradle increased the cost of a standard admission from seven to nine dollars. Included in the new admission price is a ride on the Mission to Mars virtual reality simulator. The Cradle will also be offering corporate and private memberships which will allow patrons to enjoy the facility for one full year.

A new initiative that will start in May or June of this year is to host a group of Boy Scouts for a jamboree and sleepover. For a cost of approximately \$45 per child, scouts will arrive at the Cradle at 8pm, go on a tour of the museum, see an IMAX movie and then be allowed to sleep over. They will leave the next morning before the facility opens to the public. Museum officials are hopeful this test run will evolve into dedicated weekends for both boy and girl scouts. Another new marketing target for group sales will be senior citizens. Seniors will be the intended audience for a pilot program which will feature nostalgia-themed afternoons.

In an attempt to increase school field trip attendance and enhance the experience of younger patrons, the Museum is planning to attend conferences which cater to educators. The Cradle's administration hopes this will be an opportunity to sell the facility's educational benefits to various school personnel responsible for deciding and planning field trips.

The Cradle is in the process of re-negotiating its operational contract with the County. The facility's administration is seeking two main concessions: 1) forgiveness or an extension on a \$2.5 million loan. Re-payment on this loan is scheduled to begin with the Museum's current operating year. Under the current contract with the County the eight year repayment of the \$2.5 million loan was scheduled to start on December 31, 2004. The Cradle is scheduled to repay \$250,000 in each of the first three years and \$350,000 in each of the next five years. 2) Re-structuring of the utilities section of the contract. Currently the Cradle is required to reimburse the County 60% of any building utility cost over the base of \$200,000. The base amount is scheduled to increase with the CPI. Through re-negotiation the Cradle is hoping to reduce its financial responsibilities related to utility costs. For the current operating year utility cost is budgeted at \$168,000.

As of April 22, 2005 the Cradle has been operating the gift shop. The old contract was canceled and the gift shop has been closed since January 2005. An audit of the gift shop's revenues by the County Comptroller's office concluded that \$25,712 is owed by the previous vendor. This amount includes \$10,040 in commissions and \$15,672 in service back charges for such items as cash pick-up via armored car service, dumpster charges and ticket reimbursements.<sup>2</sup>

Since the hiring of a Vice President of Marketing, the Cradle has terminated its old marketing agreement with Walter Cameron Advertising. As a result, the functions of this contract will now be carried out in-

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<sup>2</sup> Memo "Friends for Long Island's Heritage" The Office of the Comptroller, January 20, 2005

house. By ending the agreement the Cradle will save the cost of the contract, which was \$2,000 a month.

The Cradle is in the process of re-negotiating the IMAX perpetual lease. The original agreement was between IMAX and the Friends of Long Island. The Cradle is currently negotiating for a more profitable agreement, which will be between IMAX and the Cradle of Aviation.

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.