

**Nassau County
Office of Legislative Budget Review**

Spotlight On:

**The Cradle of Aviation
Museum**

March 26, 2004

**Prepared by
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**Eric C. Naughton,
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Inter-Departmental Memo

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

From: Eric C. Naughton,  Director
Legislative Budget Review

Date: March 26, 2004

Re: Spotlight on the Cradle of Aviation Museum

In April of 2003, as the Cradle of Aviation Museum approached its one-year anniversary, the Office of Legislative Budget Review examined the financial operations. At the time we reported that revenues were significantly below plan because of lower than expected attendance and ticket sales, but the Museum expected to end FY 02 - 03 with a small surplus. However, that was not the case as the Museum had a deficit of over \$400,000 and that number is expected to grow this fiscal year. It should be noted that the financial information for the current fiscal year is unaudited. Per section 183 of the County charter, OLBR may review "whether county programs are achieving their legal and desired objectives," but an accounting audit would have to be coordinated with the County Comptroller.

The attached report authored by Budget Analyst, Howard Dixon is provided as an insight into the Cradle and the financial challenges it faces. We first started discussing the issues of this report early in December 2003, but because of more pressing issues facing the County and the Legislature, I had to put the report on hold. Throughout this process the officials of the Cradle remained courteous and the need for the report became more important as the financial picture of the Museum continued to decline. Increasing revenues is critical if the Museum is to be self-sustaining. In addition, starting in 2005, the County will receive 0.50 percent of the gross revenues from admissions, concessions, special events, the IMAX theater and visitor center and the Museum has to start repaying the loan it received from the County sometime in 2004.

I would like to thank Chief Executive Officer Ed Smits, Chief Operating Officer Claudia Oakes, Vice President of Finance and Administration Anne Murphy, Museums at Mitchel, Chairman Sean Fanelli, Museums at Mitchel, Treasurer Ron Cooper, and Deputy County Executive Michael Klein 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

cc: Hon. Howard Weitzman, County Comptroller
Sean Fanelli, Museums at Mitchel Chairman
Ed Smits, Chief Executive Officer
Claudia Oakes, Chief Operating Officer
Anne Murphy, Vice President of Finance and Administration
Ron Cooper, Museums at Mitchel Treasurer
Michael Klein, Deputy County Executive
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Carole Trottere, Majority Press Secretary
Marilyn Gottlieb, Director of Legislative Affairs
Bill Geier, Clerk of the Legislature

Overview

After three decades of start and stop construction followed by months of negotiations, the **Cradle of Aviation Museum** opened its doors to the public in May of 2002. The Museum is a testament to the rich aerospace history of Nassau County, which dates back to the late 1890's, and moves through to contemporary aviation and space exploration. The Museum displays, in restored hangars, authentic aircraft, spacecraft and aviation artifacts built or flown on Long Island.

The Museum and improvements to the Mitchel field site cost the residents of Nassau County about \$43 million dollars. This figure does not include the value of the real estate the Museum sits on or the value of the spacecraft and aircraft. The \$43 million figure also does not include millions of dollars in private donations, and is only about half of the estimated \$90 million value of the Museum and its collections.

According to the financials provided by the Cradle, its first full fiscal year of operation, July 1, 2002 through June 30, 2003, ended with an operating deficit of \$426,777. Attendance for the year fell 40,000 short of the 300,000 visitors that had been projected, contributing to a shortfall in budgeted revenue. The deficit is expected to grow to \$1.1 million by the end of the 2003 - 04 fiscal year. The current attendance forecast shows the fiscal year ending with 180,000 visitors, 80,000 short of the goal set at the beginning of the fiscal year. Nation-wide attendance at museums was down most of the 2003 calendar year.¹

The financial goal for the Cradle is to become self-sustaining. It is exceedingly apparent and the common consensus that this cannot be achieved without increased revenues, which are comprised of sponsorship, donations, and attendance. The long-term health of a non-profit is usually dependant on its ability to generate donations and receive endowments. Also important is improving the traffic to the museum. The Cradle is lightheartedly labeled one of the best-kept secrets on Long Island. Unfortunately the cost of operating the Museum is the same whether it is filled to capacity or nearly empty.

The Facility

The Museum is open Tuesdays from 10am to 2pm, Wednesday – Sunday from 10am to 5pm and closed on Mondays. For a charge of \$7.00 for adult and \$6.00 for children's tickets (if purchased independently of a combination package) museum-goers can gain access to the Cradle. To enter the Museum patrons must walk through the Reckson Center. This serves as the central public reception point. The center is also used to host special events off hours, which range from private parties to corporate receptions, sit-down dinners and education seminars.

The Museum's airplane collection is the result of over 20 years of searching world-wide to locate air and space craft associated with Long Island. Pieces from the collection were retrieved from the bottom of Lake Michigan to the woods of Pennsylvania and the deserts of California, and even across the sea from Turkey, Russia and the far-off shores of Guadalcanal. The search produced a collection of more than 65 air and space craft. Many of the historic planes are quite rare with 11 being the only one of their type in existence.² The Museum section of the facility can be viewed from observation decks above or walked

¹Russel, Robert "Estimating museum attendance", [Informal learning review.com](http://informallearningreview.com), November 2003

²The Cradle of Aviation Informational brochure

through on the main floor. As patrons walk through the Museum, volunteer guides enhance the overall experience by providing details about the various exhibits. A special exhibit on women in aviation is currently on display through April 11.

Just off the main entrance is the state of the art, giant screen Leroy R. and Rose W. Grumman IMAX Theater, one of the largest and most advanced motion picture theaters in the world. It has a capacity of 300 patrons and is currently open 6 days a week to show a variety of aerospace and general films. The one-hour films cost patrons \$8.50 for an adult ticket and \$6.50 for a child if purchased separately of a combination package. Due to the seating capacity and the advanced multi-media capability of the IMAX, it is also available for special museum programs, technical meetings and program use by industry, business and educational organizations. Also on-site is the Red Planet Café, which is a simulation of a 21st century space base on Mars. This facility is the only public dining area at the Museum and on Museum Row. Off hours the same caterer is used to cater special events at the site.

After walking through the Museum and seeing the evolution of aircraft and spacecraft, patrons are invited to take a ride to Mars. The Mission to Mars is a million dollar, 30-passenger virtual reality ride that enables patrons to experience the sensation of interplanetary travel without leaving the County. The three minute ride costs patrons \$2.00 if it is purchased outside of a combination package.

The Contract With The County

The contract to operate the Cradle was approved by the Legislature in June of 2001. The most significant aspect of the process was determining who would manage the facility. The County decided it was better to have Nassau Heritage (NH) run the operation in lieu of the Cradle becoming another County Parks-run facility.

It was determined that restrictions by governmental, legal and departmental procedures, and uncertain annual budgets would prevent the Museum from operating effectively or plan multi-year programs. Also, civil service requirements may have interfered with flexibility in hiring and managing employees. Another consideration was that due to limited staffing the County would be hampered in its ability to mobilize corporate contributions to enhance future opportunities and develop improvement plans.

Since the contract was approved Nassau Heritage has changed its name to Museums at Mitchel (MAM). The MAM board both operates the Cradle and oversees the entire Mitchel field site and its development. Other museums currently being planned by MAM for the Mitchel site include a Science Museum and a Fire Fighter's Museum. These would become part of Museum Row. It is plausible to consider that the Cradle could be better served by having its own independent board, with a separate board overseeing the Mitchel field site. Currently the dual board configuration is under review.

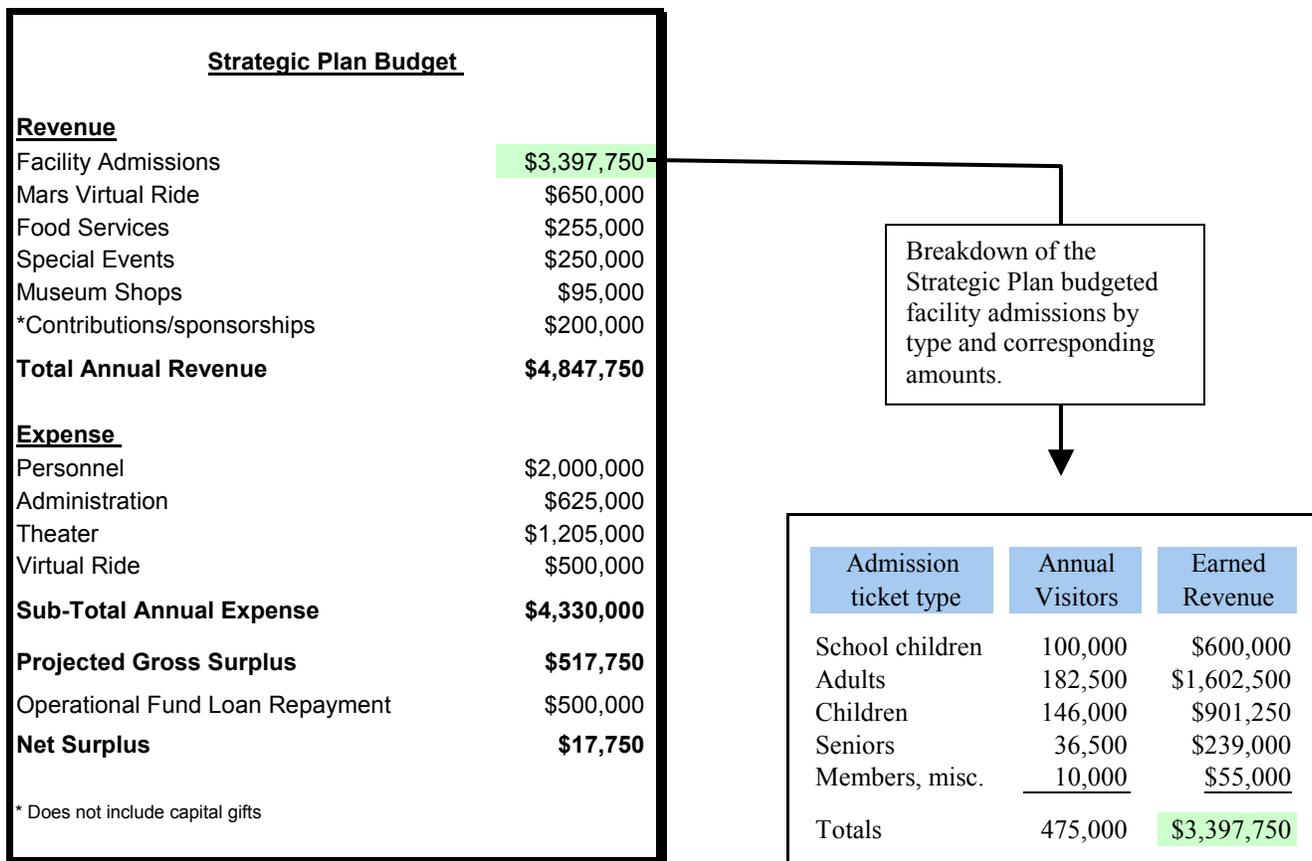
The contract approved by the Legislature between the County and MAM includes a lease with a lifetime of 15 years, and a 5-year renewal option. The lease outlines the terms of a \$2.5 million loan from the County. MAM will receive \$500,000 per year from 2001 to 2005. Starting in the 2004 calendar year MAM will repay \$250,000 in each of the first three years and \$350,000 each of the next five years. In addition MAM will transfer to the County one half of one percent of the gross revenues from admissions, concessions, IMAX Theater and special events from 2005 to 2011, and three percent thereafter.

Under the contract MAM is required to reimburse the County 60% of any building utility cost over the base of \$200,000. The base amount increases based on the CPI after 2004. They are also responsible for repairs under \$10,000 and repairs over \$10,000, if those repairs have a useful life of less than 3 years. Regarding telephone service, MAM is only responsible for calls made outside of New York State and the County is responsible for local calls.

In order to amend the County’s agreement with Museums at Mitchel, joint action is required by the County Executive and County Legislature. In the event of a default by MAM on any material term of the agreement, the County can serve 30 days notice of termination of the contract.

Financials

Pre-opening planning attendance figures at the Cradle of Aviation were projected off an estimate of 475,000 total visitors to the facility. Subsequently to being opened the numbers were revised down to 300,000. The discrepancy between the Museum’s actual performance and the financial projections can be directly tied to the shortfall in attendance. Presented below are financials which were in the Museums at Mitchel strategic plan submitted by the MAM Planning Group in August of 2000.³



³“Museum at Mitchell Strategic Plan”, Museum at Mitchell Planning Group, August 2000.

The preliminary revenue and expense projections factor more than 200,000 additional visitors than the facility has been able to achieve. Total annual gross revenue was projected at \$4.8 million, with gross revenue of \$518,000 and net revenue of slightly under \$18,000. Actual revenues collected for the first full year of operation missed the admissions revenue target by almost \$1 million. The combined museum shop and food service goals were off by over \$230,000.

The FY 2002 - 03 deficit of over \$400,000 is expected to grow to over \$1.1 during the FY 03-04 fiscal year. Adding to the financial burden, the Cradle is expected to begin repaying the \$2.5 million loan from the County. The first payment of \$250,000 is due to start in the 2004 calendar year. This should be funded out of the 2004-05 budget.

In FY 03-04 the Cradle expects to receive almost 15% less revenue compared to the previous year. The Museum's forecast shows this will be partially off-set by lowering salary expenses. As of March 2004 there were 61 total employees, of which 21 are full-time. The distribution of full-time employees by department is shown in the chart below:

<u>Department</u>	<u>Number of full-time employees</u>
Administration	6
Visitor Services	5
Theater	3
Curatorial	3
Education	2
Fund Rasing	2
Total Full-time Employees	21

The majority of the total employee attrition fluctuation is related to the part-time staff. Of the current 40 part-time employees 35 work in visitor's services, three work in theater and two work in administration.

Salary expense is projected to cost \$1.6 million for FY 2003 - 04, a 5% reduction compared to the prior year and over \$100,000 below budget. To reduce expenses the Cradle is closed on Monday of each week and closes at 2pm on Tuesdays. The hours of operation for Mondays and Tuesdays that fall on Holidays or school breaks are 9:30-5:00. Operating under a reduced schedule or closing one or more days during the week is especially common during the winter months for facilities similar to the Cradle. Currently the Cradle's management and board are deciding what the summer's hours will be.

	7/02- 6/03	7/03-6/04	7/03-12/03	7/03-6/04	<i>Variances</i>	
	<u>Prior Year</u>	<u>Budget</u>	<u>Actual</u>	<u>Projected</u>	<u>Projected Year to Prior Year</u>	<u>Projected Year to Budget</u>
REVENUE AND SUPPORT						
Contributions	\$277,899	\$275,000	\$23,795	\$134,000	(\$143,899)	(\$141,000)
Donated facilities use*	\$1,013,400	\$1,013,400	\$506,700	\$1,013,400	\$0	\$0
Admissions	\$2,433,944	\$3,090,000	\$918,113	\$1,700,000	(\$733,944)	(\$1,390,000)
Governmental grants	\$90,754	\$0	\$95,584	\$150,600	\$59,846	\$150,600
Management fees	\$125,000	\$0	\$62,500	\$125,000	\$0	\$125,000
Educational Program Fees	\$0	\$60,000	\$6,067	\$8,000	\$8,000	(\$52,000)
Gala Event	\$1,548	\$250,000	\$240,065	\$245,400	\$243,852	(\$4,600)
Food service	\$81,460	\$120,000	\$37,248	\$76,800	(\$4,660)	(\$43,200)
Museum shop	\$35,858	\$40,000	\$11,471	\$25,200	(\$10,658)	(\$14,800)
Catering	\$119,775	\$110,000	\$83,837	\$116,400	(\$3,375)	\$6,400
Building use	\$185,459	\$220,000	\$88,100	\$135,100	(\$50,359)	(\$84,900)
Misc. Income	\$55,454	\$45,100	\$14,151	\$23,400	(\$32,054)	(\$21,700)
Total Revenue	\$4,420,550	\$5,223,500	\$2,087,631	\$3,753,300	(\$667,250)	(\$1,470,200)
* This is an off-setting accounting entry, which represents the value of the land the Cradle is situated on.						

The contract for food services with CulinArt encompasses operations at the Red Planet Cafe seven days a week, all catering at the facility after hours and the vending machines in the building. The contract began in November of 2001 and extends through November of 2011. CulinArt pays a monthly base fee of \$5,000 per month to MAM. In addition there is a cafeteria sales fee of 6% of the gross receipts each month. MAM collects 12% of the gross vending sales each month. Catering services are calculated on an annual basis. If gross sales are equal to or less than \$2 million, catering fees are 10%, and if sales exceed \$2 million the fee increases to 20%. For the fiscal year which ended in FY 2002 - 03 total revenue from catering sales and food service was approximately \$201,000. MAM has projected FY 2003 - 04 revenue from this contract to decrease to \$193,000.

	7/02- 6/03	7/03-6/04	7/03-12/03	7/03-6/04	<i>Variances</i>	
	<u>Actual</u>	<u>Budget</u>	<u>Actual</u>	<u>Projected</u>	Projected Year to Prior Year	Projected Year to Budget
EXPENSES						
Salaries and related expenses	\$1,695,793	\$1,717,000	\$829,887	\$1,611,335	(\$84,458)	(\$105,665)
Supplies	\$97,943	\$31,500	\$9,687	\$20,160	(\$77,783)	(\$11,340)
Donated facilities use*	\$1,013,400	\$1,013,400	\$506,700	\$1,013,400	\$0	\$0
Equip. rental and bldg maint.	\$176,801	\$292,000	\$124,289	\$284,825	\$108,024	(\$7,175)
Educational expenses	\$2,224	\$30,000	\$8,127	\$18,440	\$16,216	(\$11,560)
Gala expense	\$4,734	\$0	\$89,100	\$89,250	\$84,516	\$89,250
Film rental fees	\$195,446	\$280,000	\$94,232	\$146,500	(\$48,946)	(\$133,500)
IMAX lease and maintenance	\$180,991	\$229,200	\$129,526	\$258,900	\$77,909	\$29,700
Simulator software/film rental	\$45,000	\$90,000	\$45,000	\$90,000	\$45,000	\$0
Financing fees	\$43,245	\$0	\$0	\$0	(\$43,245)	\$0
Insurance	\$172,190	\$160,000	\$81,383	\$159,350	(\$12,840)	(\$650)
Interest expense	\$155,246	\$145,000	\$72,132	\$144,400	(\$10,846)	(\$600)
Advertising	\$159,352	\$250,000	\$106,662	\$157,800	(\$1,552)	(\$92,200)
Marketing services	\$80,015	\$70,000	\$45,216	\$46,800	(\$33,215)	(\$23,200)
Meeting conf. and travel	\$30,533	\$29,400	\$10,532	\$15,370	(\$15,163)	(\$14,030)
Postage and printing	\$22,623	\$32,800	\$20,915	\$40,400	\$17,777	\$7,600
Professional fees	\$55,067	\$98,000	\$14,621	\$27,380	(\$27,687)	(\$70,620)
Public relations services	\$46,853	\$45,000	\$26,016	\$50,600	\$3,747	\$5,600
Support services reimb.	\$125,000	\$125,000	\$62,500	\$125,000	\$0	\$0
Uniforms	\$1,580	\$1,500	\$629	\$900	(\$680)	(\$600)
Visitor services program	\$18,822	\$10,000	\$6,834	\$12,460	(\$6,362)	\$2,460
Volunteer program	\$11,000	\$10,000	\$516	\$4,165	(\$6,835)	(\$5,835)
Curatorial and exhibits	\$19,833	\$59,000	\$25,746	\$48,940	\$29,107	(\$10,060)
Bank/Credit Card Charges	\$47,405	\$55,000	\$16,272	\$33,200	(\$14,205)	(\$21,800)
Depreciation	\$446,231	\$463,200	\$232,524	\$464,400	\$18,169	\$1,200
Total Expenses	\$4,847,327	\$5,237,000	\$2,559,046	\$4,863,975	\$16,648	(\$373,025)
NET INCOME	(\$426,777)	(\$13,500)	(\$471,415)	(\$1,110,675)	(\$683,898)	(\$1,097,175)
* This is an off-setting accounting entry, which represents the value of the land the Cradle is situated on.						

Fixed assets are capitalized at cost when they are acquired. Donated fixed assets are recorded at fair market value at the date of donation. Depreciation is computed on a straight-line basis over estimated useful lives of the assets, which range from 3 years to 20 years. Depreciation expense for year end June 30, 2003 was approximately \$446,000.⁴ Depreciation expense is a non-cash item and does not affect cash flow.

The Cradle currently has contracts with several vendors to provide food, movies and other services. The major contracts are for the IMAX Theater, the Mission to Mars exhibit and for food service. MAM has a perpetual lease agreement, through an assignment by Friends of Long Island Heritage, to operate the IMAX theatre under the IMAX trademark. The agreement requires MAM to pay royalty payments of 7% of net sales with minimum guaranteed royalties during each year of approximately \$169,000. Royalty expense for year end June 30, 2003 was approximately \$169,000. In addition there were film rental fees of \$196,446 for the same period.

⁴“Museums at Mitchell reports on audits of financial statements”, Holtz and Rubenstein & Co., LLP, FY2002 - 03.

MAM also has an agreement to rent Mars simulator software and films for approximately \$90,000 a year, expiring in June 30, 2007. This contract went into effect in 2003. Rental expense for the year ending June 30, 2003 was \$45,000, which was for six months of operation.

The Future of the Cradle

Ed Smits, the Chief Executive Officer, is presently working a reduced schedule for Museums at Mitchel. His current focus is strategic long-range planning. It is expected his role will eventually phase into a type of consultant position, focusing on long-term master planning for the Mitchel field site.

Claudia Oakes was hired as the Chief Operating Officer in August of 2003. Her responsibilities are to run the day-to-day operations of the Cradle. In 1969 Claudia Oakes began her museum career with the Smithsonian's National Air and Space Museum, where she curated Early Flight and Golden Age of Flight exhibits, and became known as a leading authority on women in aviation during her 21 year tenure. In 1990 she became an associate director at the Milwaukee Public Museum and later an assistant director at the Utah Museum of Natural History in Salt Lake City. At the Cradle her expanded educational plans include a lecture series for adults, special events with visiting astronauts, guided tours for children's groups and weekend family activities. She expects that these initiatives will broaden the Museum's appeal and attract families to visit more than once.⁵

There are many ideas for increasing admissions at the Cradle. Museum officials see the schools in the surrounding area as an under-utilized resource. The consensus opinion is that the first step to any marketing plan should be reaching out to schools and organizing student field trips on an annual basis. A recent initiative to increase mailings to local schools and to extend the mailing area to parts of Queens and Brooklyn has been successful. These mailings promote the educational resources available at the facility. Considering that most schools allow older classes to go on yearly field trips, it is hoped that fully reaching out to local schools will begin a relationship which will continue year after year. Approximately 16,000 mailings have gone out to schools, contributing to a spike of over 2,300 student admissions. Last year's attendance for the month of February was 2,642 compared to 4,956 for February this year. The Cradle has also sent out summer camp mailings, which is expected to boost this summer's camp group.

Other plans for increasing attendance include advertising on local media venues, attracting vacationers by billing the Cradle as a day-trip destination, and possibly doing some type of collaboration with other facilities on Museum Row. One idea under consideration is printing discount food and beverage coupons on the back of admission tickets for the other museums on the row, since the Cradle is the only facility which has a food vendor. Another suggestion is to advertise in Roosevelt Field Mall and other large venues that attract both residents and non-residents of Nassau County.

The Cradle officials have many initiatives and marketing ideas to increase daily traffic. These will require significant financial resources for their implementation. In FY 2002 - 03 the Cradle spent a combined \$239,367 or 5% of their budget on marketing and advertising. The current year's total advertising forecast is only 4% or \$204,600. Although the respective combined advertising and marketing budgets do not include donated media time, it appears as if larger allocations are needed for marketing and advertising budgets.

⁵ Rhonda Amon, "Soaring Hopes for Air Museum," *Newsday* September 2003

The Cradle had been seeking an Industrial Development Agency (IDA) financing of \$6 million. This money would have been used to finish displays for exhibits, purchase the Ride to Mars machinery which is currently being leased, pay off an exhausted \$1.5 million line of credit, and develop Hangar 2 which is currently being used for storage. The remaining funds would have been used for working capital. Unfortunately the Cradle's current financial condition and limited credit history are not conducive to attracting lenders and acquiring loans.

Various Cradle officials concur that the 15-member board of directors needs to grow. Currently they are in the process of expanding the board to approximately 25 members. Besides overseeing operations and long-term plans for the Cradle, board members can be a great resource for soliciting contributions, and promoting functions. Individuals chosen to be board members are normally pillars of their communities and have the potential to increase awareness of the Museum.

The ongoing viability of the Cradle is a concern, as well, of the County administration. Our office has discussed this issue with Deputy County Executive Michael Klein, the head of the Parks, Public Works Partnerships vertical. Mr. Klein assured us that he is aware of the situation at the Cradle, where he is an ex-officio trustee, and will work with the board to improve the financial health of the facility. He has many ideas and initiatives similar to those previously mentioned, such as increasing the size of the board and developing a more creative marketing strategy.

The Cradle is in its second full-year of operations and its true potential has yet to be realized. The Cradle is in a position going forward where it can either become another facility which is a drain on the Nassau County budget or become the self-sustainable facility it was envisioned to be. It is very encouraging that Museum officials have identified the problems at the Cradle and are developing strategies and initiatives to improve its financial viability. Increasing contributions, donations and attendance will pose a major challenge to the Cradle and it will require aggressive marketing and out of the box thinking to achieve these goals.