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BUSINESS PLANNING, FUNDING AND PROJECT COSTS

A summary of remarks presented by Mr. Thomas J. Martin, President, at the Annual Conference of the American Zoo and Aquarium Association in Honolulu, Hawaii.

Our experience has shown that there are a number of key questions that will need to be answered in the course of planning and designing a facility. I would like to structure my remarks around these questions and the way that they are often answered in the planning and design process. These are typically the questions that will reoccur throughout a planning and design process. If they are not adequately addressed during the course of the planning process, there will remain uncertainty, and those who must make the decisions and authorize the funds may be unconvinced and hesitate in authorizing the next stages of the work.

- ◆ Is the project feasible? This question has a number of subsidiary parts or sub questions:
 - Will anyone come to visit the project?
 - Is there enough market for the project?
 - Will visitors pay to see the project? What will they pay? What price should we use to introduce the product?
 - How much will it cost to operate the project? Will revenues cover operating costs?
- ◆ How big should the project be?

- An optimum physical size? An optimum operating budget size?
- ◆ What has been the experience of others who have built similar projects?
- ◆ Where will we get the money for the project?
- ◆ What will all of this planning cost?

These may not be all of the questions that decision makers will ask, but they represent key issues to be addressed in the planning process. In our experience, a good basic feasibility study and associated business plan will answer many — if not all — of these questions. Let's look at them one at a time.

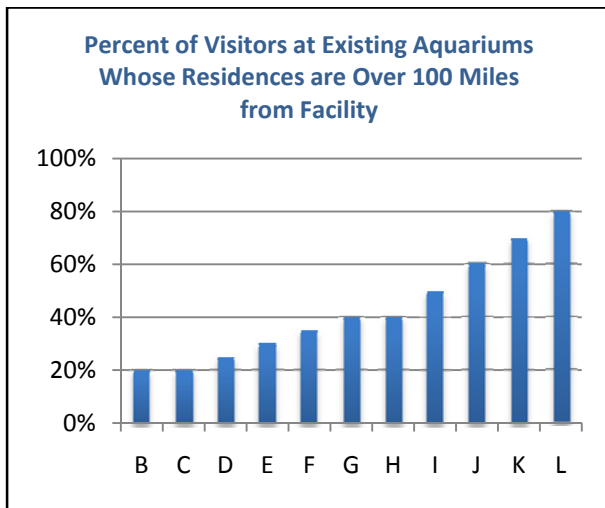
Will anyone come to visit the project?

This is a central question in the early planning for a project. It relates to the content of the program proposed as well as the potential competition that may exist in the market. It may also relate to the sophistication of the audience and their expectation level. We recently reviewed a project which, after it opened, did not achieve the projected level of attendance. One of the factors was that the resident audience had already been conditioned by other products in the broader market as to what an aquarium ought to contain, and the subject project just didn't fulfill the audience expectation level. Part of the up-front work in the planning process is to market test the concepts to see how they will play to the available

markets. These market tests can take different forms, but they do cost money and need to be budgeted for, if necessary.

Is there enough market for the Project?

There are many projects that we evaluate where the proponent feels that the issues around market size are not important because “10 million people live within a hundred miles” and/or “10 million people a year travel by the site on the Interstate highway.” This approach to market research has gotten more than one project in difficulty. Markets are segmented- by distance, by income, by family size and characteristics, by interests and various other factors. Markets are also segmented by place of residence and mode of travel. Some projects are very dependent on visitors to a region, while others are more dependent on the resident markets. Data in the following table, for instance, show the percentage of visitors who come from over 100 miles to visit twelve selected aquariums.

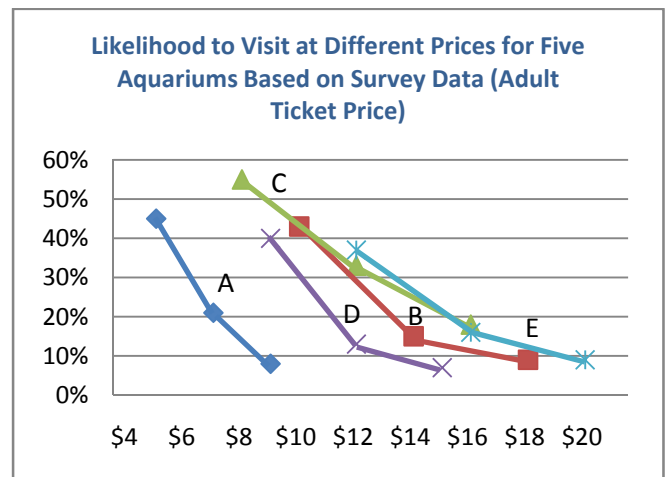


The performance of one project in a market where the bulk of visitors are tourists will not predict the performance of an attraction in a community where the bulk of the visitors will be residents. Then there is the special case where a project can induce new visitation to the region. This was an impact that was observed in the case of the Tennessee Aquarium, where visitation

exceeded the projected levels. A good market study will explicate these issues in an individual case, and give guidance to the management planning and design team.

What will visitors pay to see the project? What price should we use to introduce the product?

This is one of the most important questions that needs to be answered early in the planning process, because it will likely impact on many other decisions that will be made in the course of project planning. For an expansion to an existing project there will be a history of how an audience will respond to admission prices. For a new project, admission prices will need to be set or assumed at the point where the financial feasibility is being tested. The following graphic depicts price sensitivity of visitors at five different aquariums and illustrates that pricing decisions need to reflect local market considerations.



Again, markets are different; some are used to and expect that public attractions will be moderately priced or free; in other markets there is an expectation that prices will be at “commercial” levels. A mistaken assumption about pricing can represent a fatal flaw in any plan because admissions revenue will typically account for a high percentage of operating revenue.

In high income markets there may be less price resistance than in lower income markets. In markets

Conference Presentation

dominated by tourist visitation there may be less price resistance because visitors are “on vacation.” In a recent series of focus groups where various concepts were discussed, residents of the particular marketplace readily admitted that they would pay double the price for the same attraction if they encountered it — not at home — but on vacation.

The following graphic illustrates this point about the importance of admissions revenue, and shows various sources of operating income for a number of aquariums.

Sources of Operating Income

	A	B	C	D	E	F	G
Admissions	50%	47%	49%	67%	48%	63%	60%
Merchandise	21%	7%	30%	13%	29%	19%	21%
Membership/ Contributions	16%	13%	9%	16%	7%	8%	16%
Other/ Public Funds	5%	33%	12%	4%	16%	10%	3%

How big should the project be? Is there an optimum size for the project?

The size of the project has many implications in terms of its marketability, its capital and operating costs. Commercial recreation developers generally work very hard to maximize the relationship between size, attraction content, how many people an hour can go through the exhibit, and the revenue potential of the attraction. This discipline is very useful in the early stages of a project in terms of providing guidance to the design team. Market and financial analysis as well as operations analysis can point to an optimum size for the project and prevent costly redesign.

What has been the experience of others who have built comparable projects?

There is a wealth of experience within the aquarium, zoo and museum industries on the real costs of designing, programming and building either new

projects or major expansion projects. This information, however, is typically “experiential” and resides in the various staff and consultants who have worked on projects. As one such individual recently confided, “If we had known the real costs of this project when we started, we would never have undertaken it in the first place.” There may be definitional issues as to what various soft costs are and how they are accounted for. Designers, exhibit planners, owners, financial officers, and the myriad of people involved in the planning process may mean different things when they use terms such as “hard” and “soft” costs. Careful early planning will help to minimize difficulties in the later phases of the project.

How much will it cost to operate the project?

While many planners and owners focus on the hard costs of a project such as the construction cost, development soft costs must be addressed, and the more significant and important on-going planning costs must be projected. It is important in the planning process to investigate these costs and to understand their impact on overall project feasibility.

Where will we get the money for the project?

Funding and financing for project development are a key element in the process. There are basically three generic approaches to project funding.

- ◆ 100% Public Financed, such as the New Jersey State Aquarium at Camden.
- ◆ 100% Privately Financed, such as the Monterey Bay Aquarium.
- ◆ Mixed Public/Private, which is probably the most typical approach.

Typical of what is happening today are three projects with mixed financing. In Alaska, the City of Seward is utilizing City-backed Bonds along with State and private funding. In another project, the State will provide funding on a Tax Increment approach, based on the

project's ability to generate new visitors to the State. The following table shows the current financing for the South Carolina Aquarium in Charleston.

South Carolina Aquarium Financial Profile

Private Funds: Capital Campaign began late 1993, will continue through 1998. A total of \$4,900,000 in individual and corporate gifts committed to the project thus far.

Public Funds: Total of \$29,500,000 in State and local public funding now committed.

Special Funding Sources: Total of \$5,500,000

- ◆ U.S. Economic Development Administration: \$2,500,000 awarded to support the Aquarium's role in job creation and economic development projects.
- ◆ South Carolina Ports Authority: \$3,000,000 committed to the Aquarium as part of an investment partnership with the City of Charleston.

When we review project funding historically, we can see that there has been a wide range of types of funding used in project development. These have included well over 20 sources of funds, ranging from gifts and donations to debt financing. Indeed, aquariums were so successful, particularly in the 1980's, that various forms of debt financing have been employed.

The impact of debt financing on the operations of a project can be substantial, and may add millions of dollars to operating cost. Debt financing should be

considered only with this impact in mind.

What will all of this planning cost?

We have talked about the various components of the planning process, now what does it cost to structure the responses to these questions, and how do they fit with the overall process?

The way that these costs are accounted for will, of course, depend upon the individual situation of the potential developer and/or owner. For a project that is an expansion to an existing aquarium or zoo, there will be a database of information and a working staff that can assist with some of the work components. With a completely new facility, all of these planning costs will need to be included in the total project budget.

The business planning components of project planning and design will vary from project to project, but the types of work that may be required include development of a business plan, market studies, primary market research, financial feasibility studies, fund raising studies/packages, visitor profile studies, fund raising packages, bond prospecti, etc. All of this will be in addition to the basic planning and design fees, and should be considered when budgeting for the development of an expanded or new project.

Experience has shown that it generally will cost more than you think, so a contingency should also be included in the budget.

ConsultEcon, Inc. provides services to clients in the areas of project and plan concept development, evaluation and implementation in the fields of Visitor Attractions, and Travel, Tourism and Resort Development.

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