

CITY COUNCIL REPORT



Meeting Date: April 3, 2012
 General Plan Element: *Economic Vitality*
 General Plan Goal: *Sustain Scottsdale as a tourist destination*

ACTION ITEM

Accept the DDC Phase III Feasibility Committee Recommendations and Work Program. Adopt Resolution No. 8998 accepting the DDC Phase III Feasibility Committee Recommendations and Work Program for moving the DDC project forward; continue the DDC Phase III Feasibility Committee until an operator for the DDC is selected; and authorize a transfer up to \$60,000 from General Fund Operating Bed Tax Revenues to the Desert Discovery Center CIP project.

BACKGROUND

On November 9, 2010 the City Council adopted Resolution No. 8469 accepting the Desert Discovery Center Phase Two Feasibility Study and the Recommendations / Work Program for Phase III. The Work Program recommended that a committee be formed to further study and review the feasibility of the DDC project and provide recommendations to the City Council that include:

1. An appropriate management model for the DDC;
2. A viable funding program for the DDC capital and operating costs;
3. Validation or refinements of the DDC Phase II Study business plan, site layout and concepts; and
4. An appropriate Land Use/Zoning option for the DDC site and proposed uses.

Subsequently, on December 13, 2010 the City Council adopted Resolution No. 8540 establishing the Desert Discovery Center (DDC) Phase III Feasibility Committee. Committee member selection was based on experience in one or more of the following areas: (a) demonstrated fund raising ability and professional expertise in environmental education, (b) non-profit management, (c) exhibit programming, (d) and launching and marketing of similar facilities. On April 5, 2012 the City Council appointed the following five committee members:

- Mike Nolan, Committee Chairman and Executive Director, McDowell Sonoran Conservancy,
- Patrick Weeks, Committee Vice-Chairman and Vice President of Guest Experience at the Arizona Science Center,
- Nancy Dallett, Public Historian at Arizona State University,
- Melinda Gulick, Former Member of the DDC Phase II Committee and McDowell Sonoran Preserve Commission,
- Ken Travous, Former Director of the Arizona Park System.

The DDC Phase III Feasibility Committee met 17 times between May 2011 and February 2012. The committee meeting minutes are included as Attachment 2. The first few meetings were devoted to reviewing the DDC Phase II Feasibility Study information. Staff and the Phase II consultant team members from Swaback Partners, ConsultEcon, Exhibit Design Associates and BRC Imagination Arts assisted the committee, answering questions and providing additional information as requested. Guest speakers also provided informational reports to the committee regarding the development and operation of similar facilities; management models; restaurant and retail concepts and fundraising.

As a result of this extensive review and analysis the DDC Phase III Feasibility Committee produced and approved: several Key Findings, a set of Recommendations regarding the four areas listed above and a Work Program to support the continuation of the DDC project. These three items are outlined below with detailed analysis provided in the committee memo to the City Council included as Attachment 1.

SUMMARY OF COMMITTEE'S KEY FINDINGS

- The committee strongly supports the location, concept and vision of the DDC project as a premier education and tourism facility.
- The ultimate success of the DDC will depend upon the selection of a highly qualified operator.
- Timing for funding is critical and the current economic conditions are not conducive to public and private fundraising at this time.
- The city should continue to allocate resources to keep the DDC project moving forward by immediately initiating the RFP process for operator selection and assessing appropriate timing for the public and private funding campaign.
- The city should continue to monitor the economic conditions on an annual basis to determine when the funding goals can be met. This committee or once selected, the DDC operator should assist with this evaluation.

SUMMARY OF COMMITTEE'S RECOMMENDATIONS

1. **An appropriate management model for the DDC**
 - a. Recommend that the DDC be operated by an independent non-profit 501 (c) (3) organization that is set up specifically for this purpose and that it enter into an agreement with the City for the operation and management of the DDC.
2. **A viable funding program for the DDC capital and operating costs.**
 - a. Recommend public funding be provided for DDC capital costs by the city through a Bond for an amount not to exceed \$50 million or approximately 2/3 of the project costs and approximately 1/3, or the balance, of project costs be provided by private funding to cover all additional capital, operating and start-up costs.

- b. Recommend that the DDC operator be responsible for all operating costs. As the owner of the grounds and buildings, the City of Scottsdale will only be responsible for grounds maintenance outside the boundary of the DDC buildings, thus including the parking lot and major building and equipment maintenance/replacement. The detailed responsibilities including a favorable lease rate and boundaries of the project are to be negotiated as part of the contract with the operator. The committee recognizes that additional on-going/yearly fundraising efforts will be required by the operating entity to fully cover operating costs as is a typical occurrence in similar non-profit entities both locally, regionally and nationally.
 - c. Recommend that the city not pursue a Bond election for the DDC in 2012 but have this committee or once selected, the DDC operator reevaluate the funding viability in the Fall/Winter of 2012 for consideration of a possible Bond election in 2013. Continue to evaluate the DDC project on a yearly or as necessary basis until the public/private funding goals are achieved.
- 3. Validation with refinements of the DDC Phase II Study business plan, site layout and concepts.**
- a. Confirm support for the DDC Phase II Feasibility Study business plan as modified which contemplated lower attendance projections (215,000 per year), revenues and a lower associated operating budget (\$5 million per year) to assure that the DDC could be operated in less than projected conditions.
 - b. Recognize and affirm that as a non-profit organization, the DDC's operating revenue will require fundraising to be an essential component of the DDC business plan to cover annual operating costs.
 - c. Confirm support for the DDC Phase II Feasibility Study location, conceptual site plan layout and exhibit themes. Recommend that the focus of the DDC exhibits and programs be to support the educational mission of the DDC.
- 4. An appropriate Land Use/Zoning option for the DDC site and proposed uses.**
- a. Recommend Land Use Scenario #2. - The DDC becomes a separate parcel within the Preserve subject to the process items a-f and the Preserve Ordinance Amendment effective date being held until after funding is secured and the operator is selected.
 - a. Amend the Preserve Ordinance to allow the activities proposed for the DDC only in a specified area of the Preserve.
 - b. Prepare survey and separate legal description.
 - c. Rezone the site to a compatible district.
 - d. Process a Non-major GP amendment.
 - e. Amend the Municipal Use Master Site Plan.
 - f. DRB Approval

RECOMMENDED WORK PROGRAM

1. Instruct the City Manager to designate a team and leadership to implement this work program and keep the DDC project on track and moving forward.

2. Direct the appropriate staff to immediately initiate the process to prepare an RFP and develop the review process for future selection of a 501 (c) (3) operator solely dedicated to operating the DDC.

3. Continue to evaluate the funding potential and timing for project start –up with assistance from this DDC Phase 3 Committee until the operator is selected.

4. Continue to provide funding from the bed tax for an amount up to \$60,000 to \$150,000 per year for the next two- three years for support of the DDC project.

Estimated Bed Tax Funding for DDC Project

INITIATIVE	2012-13	2013-14	2014-15
⊙ Private Funding Feasibility Study	-----N/A (Private funds)-----		
⊙ DDC Phase III Committee	\$ 10,000		
⊙ Public Outreach	\$ 10,000		
⊙ RFP Selection Process	\$ 20,000		
⊙ Ordinance Amendments	\$ 20,000		
⊙ Matching Funds for operator start-up	-----	\$100,000*	\$150,000*
TOTAL	\$ 60,000	\$100,000*	\$150,000*

*matching fund requests are to be reviewed by TDC commission and subject to reimbursement if future bond election is approved

ANALYSIS & ASSESSMENT

Recent Staff Action

The DDC Phase III Feasibility Committee Recommendation and Work Program is to be presented to the City Council at the March 27, 2012 Study Session. This proposed action anticipates the City Council direction to staff will be to bring back a resolution for approval of these items as presented.

Policy Implications

In Recommendation #4, the committee supported the location of the DDC northwest of the Gateway Trailhead but as a separate parcel within the Preserve. Recommendation #4 includes the process steps that would be required to accomplish this action including amendments to the Preserve Ordinance, General Plan, Zoning Ordinance and the standard development review approvals. Throughout the process special attention will be taken to maintain the integrity and intent of the Preserve.

Significant Issues to be Addressed

A bond is the primary source of funding recommended by the committee for the DDC project capital costs. Private funding will make up the balance of the project costs and the economic climate is not conducive for a fundraising campaign at this time. The DDC project was included on the list of projects

evaluated by the Bond Task Force. The DDC Phase III Feasibility Committee has recommended that a bond question for the DDC not be pursued at this time.

Another potential source of funding for the DDC that was discussed by the Tourism Development Commission and the Council Subcommittee on Economic Development is the Tourism Development Fund (Bed Tax) Reservation. The TDC, at the March 20, 2012 meeting, recommended that the City Council reserve a \$600,000 per year “slice” of the Tourism Development Fund (Bed Tax) for a portion of the public funding required for the DDC project.. The City Council may direct staff to prepare a future action to allow for a Council vote to approve a “slice” of this Bed Tax Reservation Fund to be allocated towards DDC project costs.

Community Involvement

The DDC Phase III Feasibility Committee met 17 times in 10 months beginning in May, 2011 until their final meeting in February, 2011. All committee meeting agendas and minutes were posted on the city web site (<http://www.scottsdaleaz.gov/boards/DDCPhaseIII>) and all meetings were open to the public. Periodic informational presentations and committee progress reports including the final recommendations were made to the Bond Task Force, Tourism Development Commission, the McDowell Sonoran Preserve Commission and the Council Subcommittee on Economic Development which are advertised public meetings.

RESOURCE IMPACTS

Available funding

If the City Council approves the DDC Phase III Feasibility Committee Work Program then in the short term, funding could be allocated from 2012-13 General Operating Bed Tax Revenues. A budget transfer up to \$60,000 will be required to fund the required initiatives. The Tourism and Development Commission is scheduled to review this proposal for \$60,000 of Bed Tax Funding at their March 20, 2012 hearing. Staff will forward an update to the City Council prior to the March 27th hearing, regarding the TDC recommendations related to this funding proposal

There are no long term funding obligations recommended or programmed for the DDC at this time. It is recommended that the DDC Phase III Feasibility Committee meet yearly or as necessary to evaluate the funding viability for the project until such time as the DDC operator is selected. Once selected, the DDC operator should lead the private funding effort and work with the city to determine the appropriate timing for the bond proposal. Matching funds, not to exceed \$150,000 per year, for operator start-up costs could also be provided from the General Operating Bed Tax Revenues as shown in the recommended Work Program chart above and in Attachment 2.

Staffing, Workload Impact

The recommended work program provides for the establishment of a team and leadership to keep the DDC project on track by initiating the RFP process for a 501 (c) (3) operator. The Preserve Director with the assistance of existing staff from Economic Vitality, Capital Projects, Legal, Finance and Purchasing would participate in the RFP development and operator selection process. Existing staff resources would also be required to support the DDC Phase III Feasibility Committee when it meets to re-evaluate the public and private funding viability.

Future Budget Implications

If the City Council approves the DDC Phase III Feasibility Committee Recommendations and Work Program an estimated expenditure of approximately \$60,000 will be required to support the work on the DDC project initiatives in calendar year 2012. These initiatives include support for the DDC Phase III Feasibility Committee, public outreach, the RFP selection process and Ordinance amendments. A breakdown of these costs is shown in the Work Program chart above and in Attachment 1.

OPTIONS & STAFF RECOMMENDATION

Recommended Approach

Adopt Resolution No. 8998 accepting the DDC Phase III Feasibility Committee Recommendations and Work Program, continue the DDC Phase III Feasibility Committee to evaluate the funding potential and timing for project start-up until the DDC operator is selected and authorize a transfer up to \$60,000 from the General Fund Operating Bed Tax Revenues to the Capital Improvement Program of the same amount and authorize Capital Contingency Transfer to the CIP project titled Desert Discovery Center Phase III.

Proposed Next Steps

If Council adopts Resolution No. 8998, work will commence immediately on the Work Program. The City Manager will direct the appropriate staff team to develop an RFP for the independent 501 (c) (3) DDC operator and move forward with the selection process. Staff would return to the City Council for review and approval of the selected DDC operator.

RESPONSIBLE DEPARTMENT(S)

Preserve, Economic Vitality, Capital Project Management

STAFF CONTACTS (S)

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APPROVED BY


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MARCH 29, 2012
Date


Jim Mullin, Director – Economic Vitality
480-312-7601, jmullin@scottsdaleaz.gov

March 20, 2012
Date

ATTACHMENTS

1. Resolution No. 8998
2. DDC Phase III Feasibility Committee Recommendation and Work Program Memorandum Dated February 22, 2012

RESOLUTION NO. 8998

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SCOTTSDALE, MARICOPA COUNTY, ARIZONA, ACCEPTING THE RECOMMENDATIONS AND WORK PROGRAM OF THE DESERT DISCOVERY CENTER ("DDC") PHASE III FEASIBILITY COMMITTEE, CONTINUING THE DDC PHASE III FEASIBILITY COMMITTEE IN EXISTENCE AND AUTHORIZING A TRANSFER OF UP TO \$60,000 FROM GENERAL FUND OPERATING BED TAX REVENUES TO THE DESERT DISCOVERY CENTER CIP PROJECT

WHEREAS, on December 13, 2010, the City Council adopted Resolution No. 8540 establishing the Desert Discovery Center ("DDC") Phase III Feasibility Committee and subsequently selected five committee members; and

WHEREAS, the DDC Phase III Feasibility Committee met 17 times between May 2011 and February 2012 and produced a set of recommendations and a work program in support of the Desert Discovery Center Project; and

NOW, THEREFORE, LET IT BE RESOLVED, by the City Council of the City of Scottsdale, Maricopa County, Arizona, as follows:

Section 1. The City Council accepts and approves the Desert Discovery Center Phase III Feasibility Committee recommendations and work program.

Section 2. The City Council authorizes the transfer of an amount not to exceed \$60,000 from the general fund operating bed tax revenues to the capital improvement program and authorizes a capital contingency transfer to the CIP Project titled Desert Discovery Center Phase III.

Section 3. Continue the existence of the Desert Discovery Center Phase III Feasibility Committee until the operator for the Desert Discovery Center is selected, after which it shall dissolve without further action unless otherwise directed by the City Council.

PASSED AND ADOPTED by the Council of the City of Scottsdale, Maricopa County, Arizona, this _____ day of _____, 2012.

ATTEST:

CITY OF SCOTTSDALE, an Arizona municipal corporation

By: _____
Carolyn Jagger
City Clerk

By: _____
W. J. "Jim" Lane
Mayor

APPROVED AS TO FORM:
OFFICE OF THE CITY ATTORNEY

By:  _____
Bruce Washburn, City Attorney
By: Joe Padilla, Senior Assistant City Attorney

To: Mayor and City Council
From: DDC Phase III Committee
Date: February 22, 2012
Re: Desert Discovery Center Phase III Recommendations

SUMMARY OF COMMITTEE'S KEY FINDINGS

- The committee strongly supports the location, concept and vision of the DDC project as a premier education and tourism facility.
- The ultimate success of the DDC will depend upon the selection of a highly qualified operator.
- Timing for funding is critical and the current economic conditions are not conducive to public and private fundraising at this time.
- The city should continue to allocate resources to keep the DDC project moving forward by immediately initiating the RFP process for operator selection and assessing appropriate timing for the public and private funding campaign.
- The city should continue to monitor the economic conditions on an annual basis to determine when the funding goals can be met. This committee or once selected, the DDC operator should assist with this evaluation.

INTRODUCTION

On December 13, 2010 the City Council adopted Resolution No. 8540 establishing the Desert Discovery Center (DDC) Phase III Committee as recommended in the DDC Phase II Work Program. Subsequently, on April 5, 2011, the Council appointed the five members of the DDC Phase III Committee. Member selection was based on experience in one or more of the following areas: (a) demonstrated fund raising ability and professional expertise in environmental education, (b) non-profit management, (c) exhibit programming, (d) and launching and marketing of similar facilities. The City Council directed the committee to further study and review the feasibility of the DDC project and provide recommendations to the City Council that include:

1. An appropriate management model for the DDC;
2. A viable funding program for the DDC capital and operating costs;
3. Validation or refinements of the DDC Phase II Study business plan, site layout and concepts; and
4. An appropriate Land Use/Zoning option for the DDC site and proposed uses.

This memorandum provides a synopsis of the committee's activities and their findings and recommendations based on a thorough review of the Phase II Feasibility Study prepared by Swaback Partners dated August 2010 and extensive discussions with other facility experts and appropriate city staff members.

BACKGROUND

The Committee began meeting on May 11, 2011, with a total of 17 meetings held during a 10 month period from May 2011 to February 2012. All committee meeting agendas and minutes were posted on the city web site (<http://www.scottsdaleaz.gov/boards/DDCPhaseIII>) and all meetings were open to the public. The first few meetings were devoted to an overview of the DDC Phase II Feasibility Study including a Gateway site tour. In depth review and analysis followed with the DDC Phase II consultant team members John Sather, Swaback Partners, Bob Brais, ConsultEcon, Biff Baird, Exhibit Design Associates and Mathew Solari, BRC Imagination Arts, providing information to the committee at several meetings. The committee also received presentations from other facility managers who discussed management models, revenue sources, operating costs, fundraising, and restaurant and retail concepts. A list of the guest speakers is provided in Attachment A. Periodic informational presentations and committee progress reports were made to the Bond Task Force, Tourism Development Commission, the McDowell Sonoran Preserve Commission and the Council Subcommittee on Economic Development.

RECOMMENDATIONS

After studying and analyzing the information and issues related to the DDC project, the committee offers the following recommendations to the City Council.

1. An appropriate management model for the DDC

In evaluating the management model, the committee looked at several possible options.

- City Operated
- Non-profit – some city oversight
- Non-profit- separate from the city
- Private

Discussions with various facilities managers showed that there are a variety of management arrangements and operating relationships. Every facility is unique with an organizational structure to suit its specific circumstances. These discussions also provided the committee with a key finding that the ultimate success of the DDC will depend upon the selection of a highly qualified operator. The selection of the DDC operator should be a priority as this will help to ensure that the project and the private fundraising assessment continue to be evaluated and proceed as appropriate.

Staff presentations and committee review and dialogue regarding Scottsdale's General Fund, on-going economic uncertainties and other factors led to a fundamental assumption that the city will not provide annual operating funds. The committee discussed a limited role for the city in terms of major equipment maintenance of the buildings and parking areas. Otherwise the committee agreed that for the success of the DDC as envisioned an independent entity must have the ability to control the operations and programming of the facility. On November 9, 2011 the committee voted unanimously to make the following recommendation regarding the appropriate management model.

- a. Recommend that the DDC be operated by an independent non-profit 501 (c) (3) organization that is set up specifically for this purpose and that it enter into an agreement with the City for the operation and management of the DDC.*

2. A viable funding program for the DDC capital and operating costs.

The DDC committee took a hard look at the business plan described in the Phase II Feasibility Study and recommended some modifications that are discussed in detail in Recommendation #3 below.

The Phase II DDC Subcommittee recommended that the city pursue a Bond as one potential funding source for the DDC. At this time the city, through the Bond Task Force, is evaluating the projects that may be included in future Bond proposal(s). An informational presentation on the DDC project was given to the Bond Task Force and was received favorably. This process is ongoing at this time with a presentation to be made to the Council in the spring. The DDC Phase III Committee supports the recommendation that a Bond be used to fund the construction and exhibit costs of the DDC, but feels that the timing of such a request must be tied to private fundraising commitments.

The Council acceptance of the Phase II Feasibility study also included direction that the Preserve tax not be used as a funding source. Consistent with research into similar facilities, startup costs and any shortfall in the operating funds or capital costs are to be provided through private financing including ongoing fundraising and establishment of an operating reserve. It was recommended in the Phase II Work Program that a private feasibility study be conducted to assess private funding capacity and the viability of initially raising approximately \$ 20 to \$30 million dollars to cover these costs.

Committee member Melinda Gulick coordinated the effort to evaluate the feasibility of a private fundraising campaign. She reported back to the committee at the January 27th meeting, that after meeting with six potential donors and several professional fundraising consultants, all potential donors were excited about the project and willing to contribute. All indicated that the current global economic downturn and market volatility is making it difficult for potential donors to make one time or multi-year commitments for significant capital donations at this time and therefore suggest temporarily delaying any private sector funding campaign. The general consensus is that the private financing challenges are not related to the DDC concept, which all believe has worthy merit, instead the delay suggested is due to the on-going global economic uncertainty and the impact on commitments for a private fundraising campaign.

On January 27, 2012, the DDC Committee voted unanimously in favor of the following recommendations regarding the funding program for the DDC.

- a. ***Recommend public funding be provided for DDC capital costs by the city through a Bond for an amount not to exceed \$50 million or approximately 2/3 of the project costs and approximately 1/3, or the balance, of project costs be provided by private funding to cover all additional capital, operating and start-up costs.***
 - b. ***Recommend that the DDC operator be responsible for all operating costs. As the owner of the grounds and buildings, the City of Scottsdale will only be responsible for grounds maintenance outside the boundary of the DDC buildings, thus including the parking lot and major building and equipment maintenance/replacement. The detailed responsibilities including a favorable lease rate and boundaries of the project are to be negotiated as part of the contract with the operator. The committee recognizes that additional on-going/yearly fundraising efforts will be required by the operating entity to fully cover operating costs as is a typical occurrence in similar non-profit entities both locally, regionally and nationally.***
 - c. ***Recommend that the city not pursue a Bond election for the DDC in 2012 but have this committee or once selected, the DDC operator reevaluate the funding viability in the Fall/Winter of 2012 for consideration of a possible Bond election in 2013. Continue to evaluate the DDC project on a yearly or as necessary basis until the public/private funding goals are achieved.***
3. **Validation with refinements of the DDC Phase II Study business plan, site layout and concepts.**

The Committee reviewed several major components of the DDC Phase II Feasibility Study. The components reviewed by the committee included:

- Business Plan
- Location at the Gateway
- Pavilion site layout
- Exhibits
- Immersive Experience
- Retail/Gift Shop
- Restaurant

Business Plan

The committee spent significant time reviewing the business plan with particular focus on the estimates for attendance, earned revenue and the operating shortfall. In general the committee

wanted to understand alternatives in case the attendance or fundraising estimates were optimistic and if not achieved to understand how that would affect the revenue and the ability for the facility to achieve sufficient operating funds. To address these and other business plan questions the committee requested that ConsultEcon provide additional projections based on a lower attendance number and an operating budget of \$5 million in addition to the \$7 million identified in the Phase II Feasibility Study (see Executive Summary Attachment B). The link to the entire Phase II report is on the city website <http://www.scottsdaleaz.gov/preserve/DDC>. Supplemental memorandums to the report, which responded to committee questions were presented to the committee and are provided in Attachments C and D.

Site Location and Pavilion Site Layout

The committee strongly agrees with the site location northwest of the Gateway Trailhead. The spectacular views and access to established trails allow multiple opportunities for residents and visitors to discover and interact with the unique Upper Sonoran Desert.

The committee supports the proposed pavilion concept for the DDC. The low-scale design and natural building materials promote compatibility and interaction with the surrounding desert environment. Recognizing that the DDC plans are still conceptual and refinements will be necessary as the project moves toward the design and construction stage, staff provided information indicating that opportunities for consolidation and review of building materials and their application might result a 10% reduction in the construction costs. The committee would support these or similar modifications as reasonable cost saving measures as long as the integrity of the DDC's key concepts is not compromised.

Phasing of the facility was discussed by the committee in some detail. It was determined that savings from phasing is relatively limited and potentially reduces revenue opportunities by starting out with a smaller facility. The committee is in agreement that the impact of the total facility package or "critical mass" as presented in the Phase II Feasibility Study is imperative to the initial and long term success of the DDC.

Exhibits and Immersive Experience

The committee supports the proposed programming components including themed exhibits and immersive experience. Because exhibit technology, storytelling devices, and the cost of conceiving and creating an immersive experience change constantly, the DDC operator will determine the specifics of these components. The major focus of the exhibits should be to educate residents and visitors by creating interest and understanding of the unique characteristics of the Sonoran desert. Final exhibit size and details will also be determined by the DDC operator.

Retail/Gift Shop and Restaurant

Also discussed at length was the viability of the retail and restaurant as significant revenue generators. The success of these features depends on attendance, the type and quality of merchandise available in the gift shop and the type and quality of the food service provided. These components are potentially

important to the operation and success of the facility and should be included. The operator of the facility will be the appropriate entity to determine the details of these DDC functions.

On January 27th the committee voted unanimously to approve the following recommendations regarding the DDC Phase II Feasibility Study.

- a. Confirm support for the DDC Phase II Feasibility Study business plan as modified which contemplated lower attendance projections (215,000 per year), revenues and a lower associated operating budget (\$5 million per year) to assure that the DDC could be operated in less than projected conditions.***
- b. Recognize and affirm that as a non-profit organization, the DDC's operating revenue will require fundraising to be an essential component of the DDC business plan to cover annual operating costs.***
- c. Confirm support for the DDC Phase II Feasibility Study location, conceptual site plan layout and exhibit themes. Recommend that the focus of the DDC exhibits and programs be to support the educational mission of the DDC.***

4. An appropriate Land Use/Zoning option for the DDC site and proposed uses.

Three possible land use scenarios for the DDC were reviewed and discussed by the committee.

1. The DDC Facility remains within the Preserve boundary.
2. The DDC Facility site becomes a separate parcel within the Preserve.
3. DDC Facility site becomes a separate parcel outside of the Preserve.

Staff made a presentation to the committee outlining the implications and required actions for the development of the DDC under all three scenarios. The committee voted to have staff come back with more information on Scenario #2 specifically to address concerns regarding the assurances that the Preserve would be protected from the activities of the DDC and who would be responsible for ensuring that both could co-exist without disturbing the purpose and environmental integrity of the Preserve.

Scenario #2 would require the following actions:

- a. Amend the Preserve Ordinance to allow the activities proposed for the DDC only in a specified area of the Preserve.
- b. Prepare survey and separate legal description.
- c. Rezone the site to a compatible district.
- d. Process a Non-major GP amendment.
- e. Amend the Municipal Use Master Site Plan.
- f. DRB Approval

Staff explained that the Preserve Ordinance would be amended to establish a new Article or Section detailing the policies, rules and regulations applicable to the DDC facility located on this specific parcel of land in the Preserve. The rules will be consistent with the purpose and management objective of the Preserve. The DDC Rules would vary from the Preserve General Rules only in those areas that are required to successfully operate the DDC as planned. Although the DDC will be managed by an independent operator, the land use will ultimately be governed by the City through the enforcement of the Zoning and Preserve Ordinance. In order to assure that the amendment to the Preserve Ordinance would only apply to the DDC, the committee recommended that the effective date of an amendment only occur after the funding sources are secured and the operator is selected.

On December 7, 2011, after a thorough discussion of this issue, the committee voted unanimously on the following recommendation regarding the land use/zoning options for the DDC.

- a. Recommend Land Use Scenario #2. - The DDC becomes a separate parcel within the Preserve subject to the process items a-f listed above and the Preserve Ordinance Amendment effective date being held until after funding is secured and the operator is selected.***

WORK PROGRAM

In order to maintain the forward momentum of the DDC project the committee recommends the following strategic next steps for City Council consideration.

- 1. Instruct the City Manager to designate a team and leadership to implement this work program and keep the DDC project on track and moving forward.***
- 2. Direct the appropriate staff to immediately initiate the process to prepare an RFP and develop the review process for future selection of a 501 (c) (3) operator solely dedicated to operating the DDC.*** Recognizing the critical nature of the operator and management staff with regards to their involvement in the final selection of the site boundaries, architectural and site design and the design and development of the educational exhibits, it is imperative to provide leadership for the DDC as soon as possible. The RFP process and selection of an operator will assist in creating that leadership role required to provide the necessary private funding for the project. The committee recommends that the review committee for the DDC operator include a museum professional who will provide the experience necessary to evaluate the prospective applicants. Also, one or possibly two representatives from the committee could participate in the operator selection process.
- 3. Continue to evaluate the funding potential and timing for project start –up with assistance from this DDC Phase 3 Committee until the operator is selected.*** These meetings are to be scheduled annually or as appropriate.

4. Continue to provide funding from the bed tax for an amount up to \$60,000 to \$150,000 per year for the next two- three years for support of the DDC project. Per the estimated funding chart below, this will allow the appropriate work to proceed including: preparing the RFP and selection process and continuing to support the DDC Feasibility Committee. Some of these funds may be awarded on a matching dollar basis to the selected operator in support of administrative start-up costs for the center. Any matching funds requests will be reviewed by the TDC and DDC committees. If a future bond election is proposed and succeeds for the DDC, Bed Tax dollars utilized would be reimbursed from the bond funds.

Estimated Bed Tax Funding for DDC Project

<u>INITIATIVE</u>	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>
⊙ <i>Private Funding Feasibility Study</i>	-----N/A (Private funds)-----		
⊙ <i>DDC Phase III Committee</i>	\$ 10,000		
⊙ <i>Public Outreach</i>	\$ 10,000		
⊙ <i>RFP Selection Process</i>	\$ 20,000		
⊙ <i>Ordinance Amendments</i>	\$ 20,000		
⊙ <i>Matching Funds for operator start-up</i>	-----	\$100,000*	\$150,000*
<u>TOTAL</u>	<u>\$ 60,000</u>	<u>\$100,000*</u>	<u>\$150,000*</u>

**matching fund requests are to be reviewed by TDC commission and subject to reimbursement if future bond election is approved*

ATTACHMENTS

- A. Guest Speaker List
- B. DDC Phase II Feasibility Study Executive Summary
- C. Business Plan Addendum Memo from ConsultEcon dated November 22, 2011
- D. Business Plan Addendum Memo from ConsultEcon dated January 9, 2012

DDC Phase III Feasibility Committee

Guest Speaker List

John Sather, Principal, Swaback Partners

Bob Brais, Vice President, ConsultEcon

Biff Baird, Exhibit Design Associates

Mathew Solari, BRC imagination Arts

Jeff Williamson, President / CEO, Phoenix Zoo

Rachel Sacco, President / CEO, Scottsdale Visitors and Conventions Bureau

Rick Pfannenstiel, Principal, Pfocus

Fredrick Unger, President, Spring Creek Development

Ken Schutz, Executive Director, Desert Botanical Garden

Luis Ruiz, Venue Manager for Phoenix Symphony Hall, Orpheum Theatre and Herberger Theatre Center

Mike Hutchinson, Mesa Arts Center Foundation Board Member

Jim Bruner, Museum of the West

Executive Summary

In January, 2010, Swaback Partners, and a multi-disciplinary team were commissioned by the City of Scottsdale to perform a Phase 2 - Feasibility Study for the proposed Desert Discovery Center. The study built upon, and expanded the work of the Phase 1 - Feasibility Study performed in 2008 by ConsultEcon. The Swaback Partners Team included architects, land planners, management and economic development specialists, interpretive planners and designers, landscape architects, construction cost estimators, and market research specialists.

This report evaluates the feasibility of the proposed Desert Discovery Center (DDC) located at the Gateway within the McDowell Sonoran Preserve. Within this report is summarized the study methodology, research, analysis, and findings of the study. The work includes a high degree of citizen involvement in the form of citizen committees, work with the Tourism Development Commission, the McDowell Sonoran Preserve Commission, survey work, focus groups, public open houses, significant numbers of meetings with citizen leaders within Scottsdale, consultation with leaders of other similar facilities and work with city staff.

The results of this study indicate that there is a high level of interest and support for the DDC within the City of Scottsdale as well as the greater metropolitan area. The design concepts and interpretive exhibit plan presented in this report were deemed highly creative and desirable by most who reviewed them during the study process. Clearly, there are members of the community who are concerned about the impact the DDC will have on the Preserve, as well as the ability of the community to develop the capital costs necessary to build and operate the DDC, and the business plan within the study addresses alternatives for both of those concerns. Strong, creative leadership was continually cited as what is needed to see the DDC come to life and be successful. The DDC concept is unique and will give Scottsdale a world-class environmental education facility that is entertaining and inspiring. It is a facility that will educate the visitor on the wonders of the Sonoran Desert and McDowell Sonoran Preserve. It is more than a building. It is about experiences woven into the desert that can only be had at the DDC, and to get that experience again you have to return. It has no true competition. It is unique and thus will give Scottsdale its' next strong tool in tourism development, while being extremely respectful of the majestic site it occupies within the Preserve.

The experience within the DDC will take the visitor through a variety of linked desert pavilions; each with an interpretive subject matter being presented, and desert environments that will aim to tell an environmental story of Adaptation. Each visitor will experience great vistas to the Preserve, and the DDC will act as a base camp for understanding and exploring the Preserve. Visitors will experience interpretive exhibits presented in numerous ways including highly interactive exhibits, multi-media presentations, outdoor amphitheater events, as well as presentations by docent scholars. The facilities will include unique event spaces that can be used as a revenue stream for the DDC as well as highly flexible spaces for constantly changing presentations. The exhibits and experiences at the DDC will be dynamic with a goal of being able to have a different experience 360 days a year. The concept of "Adaptation" is the main theme of the interpretive plan, and the DDC environment itself. The interpretive plan focuses on telling the story of adaptation of animals, plant life, and human within the Sonoran Desert, which is the richest, most amazing desert on earth. The linked desert pavilions are conceptually designed to be highly adaptive to the climate throughout the year so that they can be open and act as indoor/outdoor facilities during the pleasant temperature months and tempered in the cooler and warmer months. The goal is to create a LEED Platinum facility that demonstrates a high commitment on the part of the citizens of Scottsdale to build within the desert a place that respects its site and shows the best of the best building techniques for sustainable buildings.

Executive Summary

The study concluded that the DDC as conceptually designed should be a series of facilities with a total of 72,000 gross square feet of enclosed space. The construction cost estimate for the facility, inclusive of all known costs to develop it turnkey, including all pre-opening expenses, and create a full year operating cost reserve is approximately \$74 million dollars. It is projected that in a stabilized year that approximately 333,000 visitors would come to the DDC. The yearly operating costs in a stabilized year of the facility would be approximately \$ 7.4 million dollars. The revenue from a variety of earned and non-earned revenue streams including ticket sales, special events, and fund raising could reasonably be assumed to match the operating expenses. The personnel plan shows approximately 79.25 full time equivalent employees. The full business plan is presented in Section VI with an Executive Summary.

The project square footage and capital costs shown in this report are larger than previous studies. The study team is confident of its recommendations and notes that any previous study had nowhere near the amount of research and analysis that this study has.

Several methods of capital funding for the facilities were discussed during the study such as bonding and public/private partnerships. While it is not the scope of this study to identify exact sources of funding, it was generally agreed by those involved during the process that some method of public/private partnership funding was the best method to raise capital funds.

As a separate document, the DDC Subcommittee has produced a Suggested Work Program for "next steps" to be considered.

In summary, the DDC is a concept that has been talked about for many years within the City of Scottsdale. As presented in this report, the DDC is a world-class facility that will draw residents and visitors alike to understand the beauty and majesty of the Sonoran Desert, and inspire them to return.

The following are a variety of simple facts contained within the feasibility study.

Site Size

- DDC: 8-9 Acres
- New Parking: 4-5 Acres
- Existing Parking: 4-5 Acres

Facility Size

- Net: 61,610 Sf
- Gross: 73,932 Sf

Parking

- Existing Parking and Circulation: 216 Spaces
- Current Parking Expansion: 125 Spaces
- New DDC Parking: 428 Spaces
- Total: 769 Spaces

Capital Cost \$74.0 M

- Buildings and Site: \$35.1 M
- Exhibits: \$13.1 M
- Permits, Design, Engineering: \$4.0 M
- City Project Management / Public Art: \$3.9 M
- Furniture, Fixtures, Equipment: \$1.0 M
- Contingency (10%): \$4.8 M
- Startup Budget: \$5.8 M
- Operating Reserves/Endowment: \$6.3 M

Annual Mid-Range Attendance Potential 333,000 visitors

Ticket Price:

- Adult \$15.00
- Child \$9.00

Annual Earned and Contributed Revenue \$7.1 M

Annual Operating Budget \$7.1 M

Personnel

- Full Time 46
- Part Time 60
- Volunteers 250+

Memorandum

To: City of Scottsdale and DDC Phase III Committee
From: Robert E. Brais, ConsultEcon, Inc.
Date: November 22, 2011
RE: Response to questions posed by DDC Review Committee

The questions posed by the Committee (match use of Capitalization throughout) are useful in testing the implications of DDC having different operating performance and using different assumptions than the baseline plan as analyzed and estimated in the August 2010 *Desert Discovery Center – Business Plan* prepared by ConsultEcon. The focus of the questions seems to be that the market and economics plan for DDC basically seem reasonable, but what if DDC doesn't reach the potential identified in the plan?

The report August 2010 *Desert Discovery Center – Business Plan* is not the final operating plan fully informed by the input of a sponsoring organization, with a designed facility and start-up staff in place. Some of the questions asked cannot be answered with the assurance that further advancement of all aspects of the development process will provide.¹ Therefore, the most important questions relate to: is the analysis reasonable? What happens if attendance is much lower – or higher than the mid-range estimate of market potential? Can the facility and the operating profile adapt to such a situation?

A conservative posture was adopted in analyzing market potential. For instance, the number of school children estimated is much lower than the experience of the Arizona Science Center would indicate. The “capture rates” of various market segments used in the business plan are much lower than the “will attend” responses from the primary market research. And, the mid-range stable year attendance potential estimate of 333,000 attendees is lower than or comparable to the attendance at many other major educational attractions in the Phoenix area. Data from the report include: Phoenix Zoo (1,485,000); Westworld Equestrian Center (600,000); Wildlife World Zoo and Aquarium (400,000 with ticket prices of \$27.50 for adults and \$14.25 for children); Arizona Science Center (300,000) and the Desert Botanical Garden which is typically 320,000, but has been higher, including 2008 when it attracted 369,000 visitors due to a special exhibit.

In reviewing and evaluating the feasibility of the DDC in the Business Plan, it should be noted that the stable year of operations may not occur for 6 to 7 or more years depending on development and construction timing and the number of years until stable operations are achieved. In this report it is estimated to be the third year. If DDC grand opening were to occur

¹ i.e., is the one position for grant writing within the development department enough? Best answer at this time is: If an additional grant writer were needed beyond the one position in the plan, it would represent perhaps a 0.6% increase in the operating budget.

in 2015, then the estimated stable year of operations that is the focus of the baseline analysis would be perhaps in 2018. So, the report is written from the perspective that the investment will be made with some uncertainty about future conditions. The underlying report assumptions about development timing is one of the items that needs to be revisited periodically if this business plan were to be used as a living document to guide ongoing development and planning.

Following are responses to questions that have been asked about the business plan, with additional information as appropriate. The Committees questions are in bold and responses in non-bolded text. They have been numbered for reference purposes.

1. Are attendance figures achievable?

Yes, the attendance potential estimates are achievable. The location is outstanding. The plan for the DDC will serve multiple market segments, including residents, tourists and school children. The likelihood is based on how well the facility is planned, developed and operated. The business plan provides substantial research and analysis regarding the quality of the McDowell Sonoran Preserve site and its accessibility; the quality and scale of the architectural plan for DDC; the exhibits, programs and experiences offered at the site which are highly differentiated in the metro area; the experience of other educational / nature based attractions in the Phoenix Metro area, and primary market research.

Two primary market research protocols were undertaken. The first included focus groups of Scottsdale residents and of other Phoenix area residents. These provide qualitative insights to the project. The second protocol was an online quantitative survey of past and potential future Scottsdale tourists, Scottsdale residents and of other Phoenix area residents. Results of the on-line consumer research of 698 respondents included:

- ◆ There is substantial agreement about the desirability of a Desert Discovery Center (DDC).
 - Generally, tourists and visitors are even more supportive of DDC than are local residents of Scottsdale and elsewhere in the greater Phoenix area.
- ◆ Sixty percent (60%) of Scottsdale residents and 40% of Phoenix area residents are more than “likely” to visit over the course of a year.
- ◆ Tourists/visitors (30%) are at least “likely” or “very likely” to visit DDC during their Scottsdale trip.
- ◆ Eighty to ninety percent (80-90%) of all respondents say DDC is a desirable destination experience for “visits of 1-3 hours with family or friends”.
- ◆ The concept for DDC is intriguing enough that about 90% say they are likely to visit more than once.
 - About 15% of local residents say they are likely to visit on average six or more times per year and the average local resident will visit about four (4) times each year.
 - Even among tourists/visitors, the average number of visits is greater than one.

While achievable, the market evidence and consumer survey research only indicate that the stable year attendance range of 264,000 to 403,000 with a mid-range of 333,000 is achievable. However, achieving the attendance potential is based on developing the project as proposed and operating it at the highest level as outlined and budgeted in the business plan.

- a. **In early years is the big first year still realistic/likely?**
- b. **Would the drop-off anticipated in following years require a longer period to achieve the stabilized attendance projected?**

The experience of major new visitor attractions and museums is that they experience attendance surges in their early years. This is particularly true of major new visitor attractions located near high population areas where it is an easy choice to attend the nearby new attraction that has been receiving a high degree of publicity.

To achieve an attendance surge, there must be substantial marketing and publicity employed before opening. The opening must occur just prior to the “high season” months, the ticket prices must offer good value for the cost; and operations and visitor experience must be first rate. If one or more of these pre-requisites are not achieved, then strong attendance might not be achieved, and /or the reputation and long-term attendance potential may be compromised. It is incorrect to use the term “drop-off” in attendance. The initial surge has ended and it is operating at its stabilized potential. Thus the term early year surge in attendance is correct.”

- c. **Should we have alternative projections for lower than the low-range stabilized attendance figures?**

As noted, a critical question is: what if the attendance projection is low? Attendance does have a major impact on the bottom line of DDC. Using the Desert Botanical Garden as a benchmark, the study’s mid-range attendance used for testing feasibility is only 90 percent of the botanical garden with the same ticket price. We did this to be conservative and to specifically discount school children as busing, changes in school policy, and development of specific curriculum indicated that education groups are a “plus” market. The low range attendance potential estimate of 264,000 is almost 30 percent lower than the Desert Botanical Garden and 12 percent below the Arizona Science Center.

Analysis of operations under the low range scenario was included in the August 2010 *Desert Discovery Center – Business Plan*. The Operational Revenue potential at the low attendance range is \$4.4 million in stable year in current dollars, and non-Operational Revenue target of \$2.2 million. In this scenario, operating expenses were adjusted downward to reflect the lower attendance and a leaner organization operating profile. Operational Revenues cover approximately 66 percent of the \$6.7 million operating expenses appropriate for the Low Attendance Range Sensitivity Analysis. This sensitivity analysis indicates that at a low-range market response, there should be good opportunity to adjust operations and raise additional funds to operate DDC successfully. In addition, there is a \$6.3 million cash operating reserve planned as part of the project’s initial capital cost that would be available for any contingencies, as well as to provide funding should fundamental shifts in the organization’s structure be necessary to reach a new equilibrium between revenue sources and operating costs.

Based on the request in this question, an even lower operating model with more conservative assumptions at a 250,000 “Test Case” stabilized attendance level was developed. This is below the “Low Range” stabilized attendance model in the CEI Business Plan report. CEI lowered revenue assumptions by increasing student groups as a percent of attendance, and lowered the base rent of the restaurant.

It should be noted that the market study and the results of the primary market research do not indicate that the 250,000 “Test Case” attendance level is likely if the DDC is developed and operated as described in the report. The Test Case has been developed for analytical purposes and to demonstrate possible outcomes of an unexpectedly low attendance profile. This may be due to poor execution of development, operations, marketing or because of changes in the Scottsdale marketplace, national economic conditions, or if expected community support does not occur. The Test Case is 25 percent lower than the mid-range attendance estimate. This Test Case should be viewed as simply an evaluation of downside risk. It should be noted, however, that if the DDC is built at a lower quality or scale; or if it is operated in a manner below the level of operations that is profiled in the business plan, then the chance of having attendance below the mid-range estimate is increased.

In a 250,000 annual attendance Test Case scenario, there would likely be lower operating costs, first simply because there would be decreases in the “cost of goods sold” because sales would be lower. In addition, there would be a need for fewer personnel and other inputs to operations. Following is a summary table of a stable year of operations for an operating pro forma iteration that was run in response to the committee’s request. The analysis summary in the table reflects the first stable year of operations. The tables for this analysis are attached as **Appendix A**.

Summary Table for Memo
Mid-Range and Low Test Case Attendance Scenarios Comparison (Sensitivity Test Case)

Revenue Source	Mid-Range	% to Total	Low Test Case	% to Total	Change in Amount	Percent Change
Attendance	333,000		250,000			-24.9%
Earned Revenue	\$6,164,850	70%	\$4,613,000	59%	-\$1,551,850	-25.2%
Non-Earned Revenue	\$196,000	2%	\$196,000	3%	\$0	0.0%
Subtotal	\$6,361,000	72%	\$4,809,000		-\$1,552,000	-24.4%
Contributed Revenue Required	\$2,460,000	28%	\$3,018,000	39%	\$558,000	22.7%
Total Revenue	\$8,821,000	100%	\$7,827,000	100%	-\$994,000	-11.3%
Operating Expenses	\$8,821,000		\$7,827,000		-\$994,000	-11.3%

Note: This analysis assumes that the full DDC is developed per the plan, but that attendance is below the low range established for the business plan. The tables that detail this summary are included in Appendix A.

Source: ConsultEcon, Inc.

The dollar increase in required contributed revenue is \$558,000, an increase of 22.7 percent. As noted above, \$6.3 million cash operating reserve is planned as part of the project's initial capital cost that would be available for any contingencies, as well as to provide funding should fundamental shifts in the organization's structure be necessary to reach a new equilibrium between revenue sources and operating costs. It is possible that there would be a steeper decrease in personnel costs and operating costs than was assumed in this scenario.

In addition to testing and considering low range attendance scenarios, it will also be important to consider the implications of attendance above the mid-range estimate of 333,000. Here, testing of parking requirements, traffic and facility throughput are important. Testing to guarantee the facility and organizational capacity to accommodate a high degree of success is also needed.

2. Review tourist attendance projections.

a. Are they realistic at 47% of total visitors?

The tourist component of total attendance is estimated at 47% of the total attendance. The range is 126,000 to 186,000 with a mid range of 156,000 attendees in a stable year. Research regarding tourists and visitors to the Phoenix metro area indicate that there are about 10.5 million visits to the metro area annually. (See Section V of the August 2010 *Desert Discovery Center – Business Plan*.) The five segments within the overall tourism market were analyzed for likelihood to visit DDC based on the characteristics of the particular visitor market segment. Overall, the “capture rate” that indicated the potential number of tourist visitors was 1.2 percent to 1.8 percent of the annual tourists to the Phoenix Metro area. These capture rates are within the range of many quality visitor attractions and museums with tourist appeal, in Phoenix and elsewhere around the country. In many tourism destinations the number of tourists and the capture rate is much higher for attractions of this quality.

The tourist segment of the survey research indicated:

- ◆ Tourists/visitors (30%) are at least “likely” or “very likely” to visit DDC during their Scottsdale trip.
- ◆ Eighty to ninety percent (80-90%) say DDC is a desirable destination experience for “visits of 1-3 hours with family or friends”.

In addition to the above, interviews were conducted with tourism industry leadership during the course of the study process. The information provided including tourism metrics for Scottsdale, tourism market conditions and insights into the interests of Scottsdale visitors. Interest has grown in the desert environment, outdoor recreation, and educational opportunities. Also, families are an important segment that needs additional recreational opportunities. The Scottsdale tourism market and industry is evolving and the DDC would meet a need, but also enhance the opportunity to attract new market segments and to extend the stays of existing visitors. Moreover, because of Scottsdale's hospitality and tourism industry's support for the concept to date, the high level of engagement in the planning process, high degree of coordination among industry businesses, and extent of tourist promotion and marketing, it is assumed that the tourism industry will lend full marketing and promotional support through DDC opening to ensure the attraction's success within tourist segments in Scottsdale.

b. What is likelihood of increase or decrease in this projection?

The estimate of visits by tourists is believed to be realistic, if the plan is executed and operated as proposed, based on primary research survey data, the national experience of comparable facilities, the experience of attractions in the Phoenix Metro, and the unique positioning of DDC as an attraction in the Phoenix area focused on the desert environment as one of the area's primary features. Indeed, there would seem to be opportunities to increase the number of tourists to DDC, if the hospitality industry and the tourism promotion infrastructure are used to "drive" tourists to the site as a featured component of the Scottsdale tourism offer. The extent to which the DDC becomes a component of Scottsdale's identity as a location will have an effect on tourism visitation and overall visitation.

Conversely, if the project is not developed to the quality of design, construction, funding and operations as included in the business plan, then there is a good possibility that the tourism attendance potential will not be achieved.

3. Do we accurately account for School Children in attendance and operating costs and revenues?

The DDC's experiences, exhibits, personnel plan and overall concept are designed so that DDC would be an educational asset among providing other benefits and qualities. The focus group participants were very clear on the potential educational value, and the survey participants had the following perceptions of the proposed DDC:

- ◆ Keeping with the goals for DDC, 55-60% of locals say DDC is "very desirable for school outings and educational programs."

Regarding the question of whether a larger portion of the 333,000 mid-range attendance potential should be attributed to students, it is important to note that the attendance potential estimate was not a top down number that was then simply divided into components, but rather it was built up from audience segments as well. The DDC will appeal to tourists and adult-only groups to a greater degree than does the Arizona Science Center in Phoenix, which conversely, is geared strongly to the education and family market. DDC actually has a broader market to draw from, because the interpretation will appeal to both young and old audiences. Therefore, the comparisons made to very high percentages of school children may be based on a somewhat different facility that serves different market segments overall. While the estimate of students is considered reasonable, if it were found that there might be more students than was included in the estimate, then the attendance potential might go up by that amount.

Further reflecting the conservative approach used in analyzing market potential, we did not make high estimates for the school group market because there are a number of factors that can affect it: school bus availability, time allotments for field trips due to standardized testing requirements and the likely requirement for DDC to develop curriculum related programs for specific grade levels. In addition, the fees for students will depend on future decisions. The number of students, therefore, is held low to account (from an earned revenue perspective) for the possibility for some students to attend free of charge. Subsequent iterations of the business plan that focus on pre-opening operations should incorporate strategies for outreach to schools and school districts to further refine attendance expectations from this audience segment. School

group attendance variation will be tied directly to the level of resources devoted to education program planning, development and operations.

Regarding operating costs, there are a number of expense items directly tied to school groups:

Personnel:

- ◆ Manager of Education Programs and School Groups
- ◆ Education and Public Program Manager
- ◆ One full time and 2 part time Educators
- ◆ Visitor Services Manager and Training Coordinator (Visitor Assistants. & Volunteers)
- ◆ Ten full time and 16 part time Visitor Assistants

Direct expenditures:

- ◆ Education Kits: \$3 per student has been allocated for education kits and direct costs.
- ◆ \$0.50 per student is allocated for Printing/Copying & Publications.
- ◆ Students are also included in other estimates of costs associated with attendance and operations.

Based on industry best practices, the costs associated with students are fully reflected in the business plan and are deemed reasonable for planning purposes. Later more detailed project planning will refine the personnel and budget requirements associated with students and school groups.

4. Membership estimates cited in the Phase II study are reasonable for a mature program. However will they be at that level in the early years and/or how long will it take to reach this number?

During the early years of DDC operations, there will be people who are simply excited to be a part of the high profile project. Pre-opening membership drives tied to fundraising campaign will also influence the level of memberships at opening. Over time some of these memberships may drop off. Other people join as members based on the programs and benefits of memberships. These may take longer to attract as programs are further developed and word-of-mouth advertising that membership is valuable spreads. Based on these factors, the business plan has shown growth over time from 10 percent of attendance in early years to 14 percent of attendance in later stable years. This reflects the pattern suggested in the reviewer's question.

- ◆ In the survey research, nearly half of the local audience likes the idea of annual memberships with family pricing and season passes.
- ◆ Nearly one-third of tourists/visitors report interest in membership for seasonal admission.

It is important to note that the relationship of ticket prices to membership prices will be a key driver of both volume of memberships and revenue derived from the membership audience

segment, which is somewhat dependent upon the balance the operator / management designs in the pricing and marketing of the memberships to strike the best balance between ticketed and membership attendance; as well as overall consumer response and perceived value of the membership program.

5. Are the earned revenues in the Phase II study realistic in year one? And / or how long will it likely take to achieve the DDC's earned revenue potential?

The main driver of earned revenue is attendance. Just as the attendance is a reasonable estimate of the DDC's potential, so too is the estimate of earned revenue. Indeed in the early years with an attendance surge expected (and observed in almost all major new visitor attractions located near high population areas) earned revenue is estimated to be higher than later as the initial surge in attendance ebbs and the facility arrives at stable attendance levels.

However, as the main driver of earned revenues, the potential for attendance in the lower end of the attendance range, or, if the facility is not developed or operated optimally, of having attendance below the attendance potential range must be considered and planned for.

Although smaller in amount than attendance related revenue, other components of earned revenue might take longer to develop or could be lower. For instance:

- ◆ A restaurant lease may be structured to start at a lower rate to provide an operator with security against lower than expected sales volume, then it might increase if business success warrants it.
- ◆ Depending on market conditions and the lead times that event planning requires, there may be a ramp-up in facility rentals.
- ◆ If retail merchandise is not correctly targeted to the audience and DDC topic, and is not unique, initial sales may be lower until merchandising is improved.
- ◆ The interest earned on operating reserves might be lower due to a low rate of return on conservatively invested funds.

Such possibilities would have a lesser effect than the low range scenarios included in the August 2010 *Desert Discovery Center – Business Plan*, and as included in Appendix A. As noted above, \$6.3 million cash operating reserve is planned as part of the project's initial capital cost.

a. Is \$1 million gross revenue for retail the 1st year realistic?

The retail sales in this year are due to the surge in attendance. If anything, the retail in the first year may perform very well, as locals buy books and souvenirs associated with the McDowell Sonoran Preserve and desert topics, and overall there is excitement about the project.

i. Is \$3.50 per capita retail sales a reasonable estimate?

Many comparable quality facilities with a mix of tourists and residents achieve per capita sales at this level or higher. The preliminary project design includes a 2,000 SF retail area. This is of a sufficient size to offer a variety of merchandise to suit different audience segments. The Desert

Botanical Garden per capita retail sales exceed the \$3.50 DDC sales potential used in the business plan.

As a sensitivity test, if achieved per capita sales were ten percent lower (\$3.15) the DDC earned revenues would be reduced less than 2 percent. Since the cost of goods sold would also be reduced, the net bottom line would be affected by less than 1 percent in such a lower sales scenario.

- ii. **A member of the Committee estimated that in the study 30% of retail sales are allocated to retail operations in addition to Cost of Goods Sold; is this correct? Is it reasonable to expect that cost?**

Yes, the cost of goods sold, personnel, and occupancy costs and administrative etc. might reasonably leave a 25% or 30% net after direct costs and shared costs of operations. This leaves strong profitability for this project component. It should be noted that there is no assumed costs (rent) for the retail space, parking, advertising etc. which would bring the profitability closer to industry standards if they were included in the cost of retail operations.

- iii. **Is 16% of earned revenue for retail a realistic expectation? How do these numbers compare with other facilities?**

Yes, it is a realistic expectation. Analysis of recent year financials at comparable facilities indicates the following approximate percentages of gross retail sales to all earned income: the Desert Botanical Garden 26 percent²; High Desert Museum 17 percent; Wild Center 22 percent; Living Desert 21 percent. Each facility has its own mix of revenue generating activities; audience profile; quality of retail offerings; extent of competition etc. but the 16 percent estimate is within the range of many institutions nationally.

- b. **Basis for the estimates for event/party rentals. Are they realistic in this areas competitive environment?**

The number of events and the revenue is very location specific and is based on quality of facilities for the events and for catering; the quality of the setting; the extent of staff support and marketing efforts; the competition in the area; and the pricing environment. The analysis was based on a calendar that assumed that there would be:

- ◆ Major Rentals: Two per week in the high season, perhaps more in the several weeks around Christmas and one per week in the shoulder season.
- ◆ Medium Rentals: One per week in high and shoulder seasons. May be located in outdoor pavilion and/or other secondary spaces.
- ◆ Birthday parties and small groups two per weekend. Prices are typical in the industry and include rental fees and shares of catering or other miscellaneous revenues.
- ◆ It is possible a busier schedule of events at DDC could become an operating burden, and additional staff and expenditures would be necessary.

² For that year the gross profit on retail sales was approximately 13% of total revenues. Assuming a 50% cost of goods sold yields an estimate of 26% of revenues, which is comparable to the analysis for DDC.

c. Are restaurant rates at \$35.00/square foot, realistic?

The revenue estimate includes base rent and any overages or shared sales revenue that may occur. This will be a highly differentiated setting and location, with outstanding views. The setting sun will fill the mountainside due to its westward facing location. This rent assumes a successful restaurant. As noted above, a restaurant lease may be structured to start at a lower rate to provide an operator with security against lower than expected sales volume, then it might increase if business success warrants it.

i. What is the impact of catering competition in the area?

DDC will not be a caterer, but as this question relates to competing to host catered events, the DDC will offer a “unique” venue. Hotel and resort properties are reportedly competing to keep their groups on-site. It is the experience nationally that there is a desire for and a tradition of groups having at least one off-site event. DDC will be well positioned to compete for this business. The DDC business plan includes a staff of 2 full-time and 2 part-time personnel dedicated to facility rentals and internal events. Marketing, operations and administrative staffs would support this dedicated staff.

5. Is it reasonable to expect that a new organization could raise the amount of non-earned revenue unrestricted operating funds projected in:

a. Year 1 – is this an aggressive assumption?

In order to undertake the project, Other Non-Operational Revenues³ will be necessary and their sources should be secured and/or studied and planned sufficiently in order to comfortably move forward. Endowment should be an important component of the operating and funding plan. A fundraising feasibility study had not been undertaken at the time of the business plan for either the initial capital costs or for the ongoing contributed revenue. The percent to total revenues used in the plan and the actual amounts estimated to be required are within the experience of many similarly scaled educational attractions nationally.

b. is a 40% increase in Year 2 non-earned revenue from Year 1 amount reasonable?

The amount of assumed is simply reflective of the greater need for such funds in year 2 as the initial attendance surge and its related revenue surge subsides. It will be important for a strong fundraising capacity be in place before opening and during the initial years. The staffing plan includes appropriate personnel, but more important is the board and community leadership to ensure needed DDC funding.

i. What is the impact of variations in attendance projections and possibly lower earned revenues on these non-earned revenue numbers?

Included above is discussion of the impact of lower attendance and revenues. The effect that lower attendance and revenues would have on contributed and non-earned revenues should also be considered. While a lower operating profile may make the need greater, it may also make the case for contributed and grant funding more challenging. Therefore, working toward excellence

³ 1/ Represents potential revenue from grants, gifts, corporate sponsorships, fundraising events, endowment proceeds and other relevant sources.

from initial project planning through construction and into operations will mitigate market, operating and fundraising risk.

c. Fundraising requires leadership, when to hire director, lead staff?

This point is absolutely true that strong leadership must be established as soon as possible while maintaining an orderly development process. A preliminary pre-opening plan is included in the August 2010 *Desert Discovery Center – Business Plan*. As noted above, this pre-opening plan will also need adjusting, detailing and refining moving forward, it does provide a good basis for beginning project organization development. If followed needed organization capacity will be formed to support needed fundraising activities and other project development activities.

7. Please provide an overview of how the operating expenses were calculated / estimated?

The operating expense categories themselves are established by the reviews and analyses ConsultEcon has prepared for hundreds of organizations, the comparable facilities researched for the DDC plan and the specific activities and offerings proposed for DDC. The operating expense estimates were calculated by individually analyzing the many categories of expenses necessary to operate the DDC. The personnel plan was based on the work needed to be accomplished, the programs and exhibits to be offered, the volume, type and seasonality of visitation, and the actual personnel plans of other comparable institutions. Salaries are illustrative based on museum industry experience for similar positions and adjusted for local conditions through a review of Bureau of Labor Statistics occupational wage data for the Phoenix Metro Area. Expenditure categories were tied to unit-based factors that are most closely tied to the category. These include per attendee, per SF of building and per employee costs. The amount per unit-based factor is based on comparable facility experience and overall industry experience. The total operating expense estimate was analyzed from the perspective of cost per visitor, cost based on facility size, cost per employee and the ratio of the expenses -- particularly the personnel costs -- compared total costs. Finally, the total costs were compared to and analyzed with respect to the costs and operating profiles of other institutions. This approach provides a good understanding of the requirements to successfully operate the DDC. While any given item may ultimately prove to be higher or lower than the estimates in the plan, the variances will tend to balance out. In addition, there is good evidence that the DDC can be successfully operated within the overall budget established based on the experience of comparable institutions and their overall operating budgets.

8. Were cash flow projections prepared?

Cash flow projections were not part of the scope of services and were not included in the plan. However, as noted earlier, there is a \$12.4 million pre-opening capital cost that is included in overall operating costs. This covers much of the need for initial cash flow and the \$6.3 million Operating Reserves and Contingency are part of the \$12.4 million pre-opening capital cost.

9. How best to account for possible phasing of the project and affects on attendance, revenues and costs:

a. Implication of reducing/phasing?

In an earlier phase of work, an economic and phasing attendance and operating model was prepared. This analysis had an estimated 20 percent lower attendance, 25 percent lower revenue and a 17 percent increase in need for contributed revenues. The finding is that a phased approach may be viable, but that the most significant benefit is the lower capital costs. The negative implications are that there may be more market risk, and that the operating cost savings may be lower than the earned revenue decreases associated with a phased approach given the plan to fully build out DDC.

Simply reducing DDC is possible and the alternative plan would have different attendance, revenue and operating expenditure profiles, and initial capital costs, depending on what is built and the organization plan that is implemented. Given the current stage in planning, before an organization has been identified or created as the operator, there is an inherent risk that there will be variation in the operating results actually achieved and the business plan developed in 2010; hence the need for ongoing business planning as subsequent design and organizational milestones are achieved to refine key assumptions.

i. Restaurant/catering

Creating a first phase without food service would be problematic given the location without adjacent food service amenities, the length of time visitors would spend at the site, and opportunity cost of lost revenue. At least some food service is highly recommended.

ii. Desert Great Room

Creating a first phase without the Desert Great Room is not recommended in that a major portion of the activity and use of the DDC will be for events, programs and ongoing community use. The benefits of the site would be lowered and there would be a lost revenue opportunity. If this approach is necessary, a temporary tensile structure to accommodate the functions of the Desert Great Room during favorable weather periods would be recommended.

iii. Eliminate Immersive Theater or reduce its scale/cost?

The immersive theater is viewed as an essential project element. It provides an emotional and visceral exhibit experience that is central to the overall plan for the visitor experience. As planned, the immersive Theater will provide a high profile created experience to go along with the natural experience that will be the focus of DDC. Reducing the size of the immersive theater of course can be done, as the project is conceptual at this time, but there are trade-offs with regards to optimizing visitor throughput and capacity. The size of the theater itself has some variability, but the immersive theater no matter what the size will require sufficient budget in developing and installing the technology to support the proposed quality of this signature experience. The trade-off is fundraising risk and operating cost versus the market risk of attracting targeted attendance and earned revenues. It might be that the immersive theater is of interest to potential capital funders as well, as theaters create sponsorship and naming opportunities that can attract significant corporate or philanthropic money.

iv. Etc.

The challenge of successfully phasing the DDC is in being able to build sufficient critical mass of visitor experience and visitor amenities along with the required support areas. In order to make the facility ready for future phases additional infrastructure and support areas would be needed. Also there would not be a large percentage savings in pre-opening costs. Thus an initial phase of perhaps 75 percent of the visitor experience and amenities would likely not save 25 percent of the initial capital cost.

10. Inclusion of particular personnel positions in the plan such as additional grant writers, event planners etc.

Indeed, there would be adjustments from this initial personnel profile to the actual staff hired in a number of years, but the staffing and personnel altogether seem adequate at this time. Future planning and development, such as the design and exhibits, programs, and fundraising plans, would all influence the final makeup of personnel that may change over time as organizational ramp up, market conditions and operating experience dictates. Currently the plan includes 2 full-time and 1 part-time events staff. The Institutional Development Department includes a Development Coordinator, Grant Writer / Development Data Coordinator, Membership Manager, part time Membership Coordinator, Marketing & Membership Administrative Assistant. This staff would support the Executive Director and the Board of Directors in fundraising.

11. Is direct desert science research included in the DDC as planned to date?

Research is not explicitly included. If during the development process funding is created and the design accommodates such activity, it might be desirable based on what the research is. It would have to be funded in excess of what's in the model, but might be possible as grants are activity specific. If it were included, it could be desirable as DDC could showcase and disseminate the findings of research and monitoring activities that occur.

Appendix A - Test Case ^{4/}

Table VIII-1
Preliminary Attendance Potential *Below Low-Range Test Case*
Desert Discovery Center

	Market Penetration Rates			Visitation Range			Percent to Total
	Estimated 2014 Market Population	Low	High	Low Range Attendance	Mid Range Attendance	High Range Attendance	
Resident Market							
Primary Market Area	260,200	6.00%	10.00%	15,612	20,816	26,020	8.3%
Secondary Market Area	2,165,200	2.00%	3.50%	43,304	59,543	75,782	23.8%
Tertiary Market Area	2,574,700	1.50%	2.00%	38,621	45,057	51,494	18.0%
Total Resident Market	5,000,100	1.95%	3.07%	97,537	125,416	153,296	50.1%
Visitor (Tourist) Market							
	Estimated 2008 Tourist Market ^{1/}	Low	High	Low Range Attendance	Mid Range Attendance	High Range Attendance	
<i>Scottsdale Overnight Visitors</i>							
Domestic & International Overnight Hotel Visitors	1,183,000	2.00%	2.50%	23,660	26,618	29,575	10.6%
Visiting Friends & Relatives (VFRs)	237,000	1.50%	2.50%	3,555	4,740	5,925	1.9%
Overnight Visitors Staying in Seasonal Homes	136,000	1.50%	2.50%	2,040	2,720	3,400	1.1%
<i>Scottsdale Day-Trip Visitors</i>							
Domestic Overnight Day-Trippers to Scottsdale ^{2/}	6,895,000	0.90%	1.00%	62,055	65,503	68,950	26.2%
<i>International Overnight Visitors to Metro Phoenix, Not Staying in Scottsdale ^{3/}</i>							
	2,031,000	1.00%	1.50%	20,310	25,388	30,465	10.1%
Total Visitor (Tourist) Market	10,482,000	1.06%	1.32%	111,620	124,968	138,315	49.9%
Total Stabilized Attendance Potential Range				209,157	250,384	291,611	100.0%
Mid Range Attendance ^{4/}				209,000	250,000	292,000	

^{1/} Based on latest data available. This is a reasonable assumption for future tourism activity.

^{2/} The City of Scottsdale defines this segment as day visitors in its annual Scottsdale/Paradise Valley tourism study. Day visitors are domestic overnight tourists staying in accommodations outside of the Scottsdale/Paradise Valley.

^{3/} International overnight visitors is derived from Mexican, Canadian and Overseas visitors to Arizona.

^{4/} Rounded to nearest 1,000.

Source: ConsultEcon, Inc.

Table VIII-2
Five Year Attendance Potential Pattern *Below Low-Range Test Case*
Desert Discovery Center

	YEAR 1	YEAR 2	STABLE YEAR 3	YEAR 4	YEAR 5
Percentage of Stabilized Attendance	120%	105%	100%	100%	100.5%
Mid Range Visitation Potential	300,000	262,500	250,000	250,000	251,250

NOTE: DDC is expected to open in 2014. Therefore, Year 1 represents 2014.

^{1/} Stabilized attendance expected to occur in Year 3. This analysis assumes that the full facility will be open for Year 1 of operations.

Source: ConsultEcon, Inc.

⁴ Changes in the assumptions used in the Below Low Range Test Case Scenario from the assumptions used in the August 2010 *Desert Discovery Center – Business Plan* are highlighted in blue shading.

Appendix A (continued)

Table VIII-3
Seasonality of Attendance Below Low-Range Test Case
Desert Discovery Center

	Low Attendance Scenario		Mid-Range Attendance		High Attendance Scenario	
	Seasonality	Total Attendance	Seasonality	Total Attendance	Seasonality	Total Attendance
January	7%	14,644	7%	17,500	7%	20,412
February	9%	18,828	9%	22,500	9%	26,244
March	11%	23,012	11%	27,500	11%	32,076
April	13%	27,196	13%	32,500	13%	37,908
May	11%	23,012	11%	27,500	11%	32,076
June	7%	14,644	7%	17,500	7%	20,412
July	6%	12,552	6%	15,000	6%	17,496
August	6%	12,552	6%	15,000	6%	17,496
September	6%	12,552	6%	15,000	6%	17,496
October	8%	16,736	8%	20,000	8%	23,328
November	8%	16,736	8%	20,000	8%	23,328
December	8%	16,736	8%	20,000	8%	23,328
Total ^{1/}	100%	209,000	100%	250,000	100%	292,000

^{1/} Rounded to nearest 1,000.
Source: ConsultEcon, Inc.

Table VIII-4
Facility Sizing Parameters Below Low-Range Test Case
Desert Discovery Center

Annual Visitation ^{1/}	Mid-Range Attendance				
	Peak Periods		Average Periods During Peak Months		Facility Rentals
	32,500		20,833		
Peak Month Attendance	9,100		5,833		
Average Month Attendance	1,638		1,050		
High Week at 28% of peak month	(2 hr. stay - 30%)		(2.5 hr. stay - 35%)		
High Day Attendance at 18% of high week	491	573	315	368	
Length of Stay	490	570	320	370	
Peak in-house Population	196	227	128	148	
Rounded					
High Day Parking Requirement ^{2/}					
Potential for Event Parking Demand ^{3/ 4/}					200

^{1/} Early year attendance may be fifteen percent higher or more. However, this analysis uses a more conservative assumption of 10% for financial modeling purposes.
^{2/} Based on 95 percent site usage during peak daytime periods (bus usage is higher during the shoulder seasons from school groups and tour groups). 2.5 persons per vehicle. Plus 3% turnover requirement. Does not include employee, volunteer and other administrative visitor parking. This is for DDC only. The parking will need to be considered in the context of the Gateway trailhead use and parking needs.
^{3/} Estimated at one car per two attendees at events of 300 people per event, plus 50 cars for caterers and servers, security, DDC staff, volunteers etc.
^{4/} Most major facility rentals will be during evenings or at the end of the day, so they would seldom overlap with the peak in-house times of 10am to 2pm. Further, if there were a need for a mid-day facility rental, the parking might be accommodated through mitigation measures such as remote parking/shuttles etc. For the vast majority of events parking demand is accommodated by parking available because the demand from DDC attendees is lower at the time of the event.

Source: ConsultEcon, Inc.

Appendix A (continued)

Table IX-1
Admissions Analysis in Current Dollars Below Low-Range Test Case
Desert Discovery Center

Per Capita Ticket Revenue					
	% to Total Attendance	Attendance By Type	Ticket Price	Contribution to Ticket Per Capita	Percent Contribution to Ticket Per Capita
Adult	35.80%	89,500	\$15.00	\$5.37	61.0%
Senior	16.50%	41,250	\$12.25	\$2.02	23.0%
Youth (3-12)	15.50%	38,750	\$9.00	\$1.40	15.8%
Student Group	8.00%	20,000	\$6.00	\$0.48	5.5%
Members	12.00%	30,000	\$0.00	\$0.00	0.0%
Facility Rentals	7.90%	19,750	\$0.00	\$0.00	0.0%
Free/Complimentary ^{1/}	4.30%	10,750	\$0.00	\$0.00	0.0%
<i>Less Discounts & Coupons @ 5%</i>				(\$0.46)	-5.3%
Total	100.00%	250,000		\$8.80	100.0%
Memberships Estimates					
		Membership Types	Percent to Total	Estimated Number of Memberships	Avg. Price By Type
No. of Member Attendances	30,000	Individual	20.5%	769	\$40
Average Annual Attendances Per Membership	8	Dual	35.0%	1,313	\$70
Est. Total Memberships	3,750	Family	40.0%	1,500	\$125
Average Membership Fee	\$100.00	Donor	3.0%	113	\$250
		Sponsor	1.0%	38	\$500
Membership Revenue	\$375,000	Patron	0.5%	19	\$1,000
			100.0%	3,752	\$100.33
				Rounded:	\$100.00

^{1/} Includes children aged 2 and under, complimentary tickets, VIPs, special events & programs etc.

Source: ConsultEcon, Inc.

Appendix A (continued)

Table IX-3
Operations Analysis Assumptions In Current Dollars, Unless Noted Below Low-Range Test Case
Desert Discovery Center

General		Comments
Year Assumed to Open to Public	2014	
Indoor Gross Exhibit Square Footage	34,200	(28,500 NSF)
Total Indoor Gross Square Footage	72,972	
Total Exterior Square Footage	70,700	
Mid-Range Attendance	250,000	
Annual Inflation Rate	2.0%	
Personnel & Benefits Annual Inflation Rate	2.5%	
Annual Attendance Growth after Year 4	0.5%	
Admission Fees and Revenue		
Adult Ticket Price	\$15.00	
Per Capita Ticket Revenue	\$8.80	
Coupons & Discounts as a % of Per Capita Ticket Rev.	5.0%	
Ticket Price Increase % every other year	5.0%	
Retail		
Retail Area Gross Square Footage	2,400	(2,000 NSF)
Per Capita Retail Sales	\$3.50	
Outside Retail Sales as Percent of Per Capita Retail Sales	15%	
Cost of Goods Sold as a % of Retail Sales	50%	
Food Service		
Vending and Retail Shop Per Capita Food / Beverage Sales	\$1.00 ^{1/}	
DDC Net Proceeds from Vending & Store Food Sales	25.0%	
Cafe/Restaurant Indoor Gross Square Footage	3,120	Assumes 80 seats
Desert Dining Garden Outdoor Square Footage	2,000	
Restaurant Base Lease Rate Per SF in 2014 Dollars	\$20.00	\$35.00 ^{2/}
DDC Net Proceeds of Restaurant Gross Sales	2.0% ^{3/}	
Family & Individual Memberships		
Number of Family, Individual & Supportive Memberships	3,750	Stable Year
Average Membership Fee	\$100.00	
Annual Attendances Per Membership	8	
Facility Rentals and Receptions		
Major Rentals Per Year	48	
Target Attendance in Stable Year	14,400	Avg. 300 per event
Average Net Revenue per Rental	\$6,000	
Medium Rentals Per Year	28	
Target Attendance in Stable Year	2,800	Avg. 100 per event
Average Net Revenue per Rental	\$2,000	
Minor Rentals Per Year (primarily Birthday Parties)	95	
Target Attendance in Stable Year	2,375	Avg. 25 per event
Average Net Revenue per Rental	\$300	
Other Revenue As a % of Earned Revenue	1% ^{4/}	
Operating Reserves		
Operating Reserve Assumption in 2014	\$6,300,000 ^{5/}	
Annual Growth Rate above Inflation Rate	3%	
Annual Interest	3%	

NOTE: Assumes DDC Program of Areas dated June 16, 2010 by Swaback Partners.

^{1/} Limited vending and beverage / snacks available in gift shop. Other food provided by cafe.

^{2/} In 2014 dollars. Three-year term increased at inflation for 2nd term.

^{3/} Restaurant assumed to hold a liquor license. Restaurant gross sales estimated based on \$8 per capita for DDC visitors, plus \$10 average spend from an assumed 18,000 (50 per day) annual outside patrons who are drawn from from trail users and from drive-up customers.

^{4/} Other revenues include revenue from programs, special events, stroller rentals, lockers and other sources.

^{5/} In 2014 dollars.

Source: ConsultEcon, Inc. and Swaback Partners

Appendix A (continued)

Table IX-4
 Earned Revenue Potential *Below Low-Range Test Case*
 Desert Discovery Center

Year	2014	2015	2016	2017	2018	Stable Yr Att. (in current dollars)	Percent to Total
	YEAR 1	YEAR 2	STABLE YEAR 3	YEAR 4	YEAR 5		
TOTAL ATTENDANCE	300,000	262,500	250,000	250,000	251,250	250,000	
Per Capita Ticket Revenue	\$10.09	\$9.64	\$9.82	\$9.82	\$10.30	\$8.80	
REVENUE							
Operational Revenue							
Ticket Revenue	\$3,027,459	\$2,531,444	\$2,456,018	\$2,456,018	\$2,588,861	\$2,200,734	33.3%
Membership Revenue	358,280	382,660	416,250	416,250	441,090	\$375,000	5.7%
Gross Retail	1,281,409	1,143,657	1,110,981	1,133,201	1,161,644	1,006,250	15.2%
Food Service Net	79,591	71,035	69,005	70,385	72,152	62,500	0.9%
Café/Restaurant Lease Revenue	176,693	166,028	164,404	171,748	173,161	108,801	1.6%
Facility Rental	356,566	357,203	351,098	358,120	379,066	316,500	4.8%
Other Revenue	52,800	46,520	45,678	46,057	48,160	40,698	0.6%
Total Operational Revenue	\$5,332,797	\$4,698,546	\$4,613,433	\$4,651,779	\$4,864,135	\$4,110,483	62.3%
Non-Operational Revenue							
Operating Reserves Interest	\$189,000	\$192,606	\$196,282	\$200,027	\$203,844	\$178,099	2.7%
^{1/}	\$2,001,679	\$2,782,793	\$3,017,710	\$3,132,168	\$3,075,674	\$2,311,212	35.0%
TOTAL REVENUE	\$7,523,477	\$7,673,946	\$7,827,425	\$7,983,973	\$8,143,653	\$6,599,794	100.0%
Operating Reserves Growth	\$6,300,000	\$6,420,217	\$6,542,727	\$6,667,575	\$6,794,806	\$5,936,631	

NOTE: DDC is expected to open in 2014. Therefore, Year 1 represents the inflated 2014 dollar value.

^{1/} Represents potential revenue from grants, gifts, corporate sponsorships, fundraising events, endowment proceeds and other relevant sources. See discussion in text.

Source: ConsultEcon, Inc.

Table IX-5
Illustrative Personnel Positions and Salaries - Below Low-Range Test Case
Desert Discovery Center

Position	Annual Salaries (FTE)	Part-Time Seasonal (Peak Season) Salaries	Number of Full Time Positions	Number of Part Time Positions	Number of Peak Season Positions	Total Salary Budget
Administration						
Executive Director	\$150,000		1			\$150,000
Business Manager / CFO	\$100,000		1			\$100,000
Personnel Manager	\$55,000		1			\$55,000
Account Manager / Bookkeeper	\$45,000		1	1		\$67,500
Receptionist/Administrative Asst.	\$29,000			1		\$14,500
Marketing, Development, Membership and Facility Rentals						
Marketing Manager	\$80,000		1			\$80,000
Marketing Coordinator/Administrative Asst.	\$35,000		1			\$35,000
Development Manager	\$90,000		1			\$90,000
Grant Writer / Development Data Coordinator	\$50,000		1			\$50,000
Membership Manager	\$55,000		1			\$55,000
Membership Coordinator	\$35,000			1		\$17,500
Marketing & Membership Administrative Asst.	\$35,000			1		\$17,500
Events Coordinator	\$50,000		1			\$50,000
Facility Rentals Coordinators	\$45,000		1	2		\$90,000
Visitor Services and Education Programs						
Manager of Education Programs and School Groups	\$50,000		1			\$50,000
Education and Public Program Manager	\$50,000		1			\$50,000
Educators	\$32,000		1	1		\$48,000
Visitor Services Manager and Training Assistantst. & Volunteers) (Visitor	\$35,000		1	1		\$52,500
Visitor Assistants	\$22,000		8	12		\$308,000
Visitor Assistants (Peak Season)		\$5,000			3	\$15,000
Retail & Admissions						
Museum Store Manager / Buyer	\$60,000		1			\$60,000
Assistant Store Manager	\$40,000		1			\$40,000
Admissions Manager	\$55,000		1			\$55,000
Group Sales Reservationist / Membership Sales	\$25,000		1			\$25,000
Cashiers - Admissions/Retail	\$21,000		4	8		\$168,000
Cashiers - Admissions/Retail (Peak Season)		\$4,500			5	\$22,500
Exhibits						
Multimedia Program & Exhibit Manager	\$75,000		1			\$75,000
IT / Multimedia Technician / Web Site	\$70,000		1			\$70,000
Changing Exhibit Gallery Coordinator	\$40,000		1			\$40,000
Exhibit Technician	\$35,000		3	2		\$140,000
Plant Operations, Living Specimen Husbandry						
Facility Manager / Engineer	\$55,000		1			\$55,000
Assistant Facility Manager / Engineer	\$40,000		1			\$40,000
Biologist	\$50,000		1			\$50,000
Horticulturist	\$50,000		1	1		\$75,000
Biologists / Horticulturists (Interns)		\$12,000		3		\$18,000
Staff Technician / HVAC / Life Support Systems	\$28,000		1			\$28,000
Custodians	\$22,000		2	2		\$66,000
Groundskeepers	\$22,000		1	2		\$44,000
Lead Security Guard	\$28,000		2			\$56,000
Security Guards	\$24,000			6		\$72,000
Total			47	44	8	\$2,595,000
Fringe & Benefits @ Average of	28% of Total Salaries					\$726,600
Total Salaries & Benefits Budget						\$3,321,600
Total Full Time Equivalent Positions (FTE'S)						71.00

NOTES: Part Time Employees Calculated at 30% FTE, seasonal workers at 25% FTE. Volunteers would serve to supplement some positions such as Visitor Assistants.

Visitor Assistants and Cashiers paid positions be supplemented by Volunteers.

Source: ConsultEcon, Inc.

Table IX-6
Illustrative Annual Operating Expenses Below Low-Range Test Case
Desert Discovery Center

Project Parameters			
Indoor Square Footage	72,972		
Exterior Square Footage	70,700		
Annual Attendance	250,000		
Students in Groups	20,000		Percent
Employees (FTEs)	71.00	See Personnel Schedule	to Total
Detailed Budgetary Analysis			
	Annual Amount	Expense Factors ^{1/}	
Salaries (FTE, PTE)	\$2,595,000	See Personnel Schedule	39.3%
Fringe / Benefits (@ 28% of Sal)	\$726,600	See Personnel Schedule	11.0%
		Budgeted at \$15/hour for	
Allowance for Interns & Seasonal Personnel	\$37,500	2,500 hours	0.6%
Uniforms	\$7,100 @	\$100 Per FTE	0.1%
Professional/Contract Services	\$220,100 @	\$3,100 Per FTE	3.3%
Voice/Data/Web Presence	\$74,550 @	\$1,050 Per FTE	1.1%
Postage & Shipping	\$24,850 @	\$350 Per FTE	0.4%
Equipment Rental/ Lease	\$28,400 @	\$400 Per FTE	0.4%
Travel, Meeting and Entertainment	\$35,500 @	\$500 Per FTE	0.5%
Dues and Subscriptions	\$17,750 @	\$250 Per FTE	0.3%
Retail Cost of Goods Sold (COGS)	\$503,125 @	50% Of Gross Retail Sales	7.6%
Advertising	\$525,000 @	\$2.10 Per Attendee	8.0%
Printing/Copying & Publications	\$125,000 @	\$0.50 Per Attendee	1.9%
Educational Kits	\$60,000 @	\$3.00 Per Student	0.9%
Events & Programs	\$175,000	Budgeted	2.7%
Changing Exhibits	\$175,000	Budgeted	2.7%
Exhibit Reinvestment	\$175,000 @	\$0.70 Per Attendee	2.7%
Exhibit Supplies	\$25,000	Budgeted	0.4%
Exhibit Replacement	\$12,000	Budgeted	0.2%
Supplies & Materials	\$134,900 @	\$1,900 Per FTE	2.0%
Utilities	\$218,916 @	\$3.00 Per Interior SF	3.3%
Insurance	\$87,566 @	\$1.20 Per Interior SF	1.3%
Repairs & Maintenance	\$102,161 @	\$1.40 Per Interior SF	1.5%
Grounds keeping/Landscaping Supplies & Replacement	\$75,000 @	\$6,000 Per Month ^{2/}	1.1%
Parking Maintenance	\$18,000	Budgeted for 300 spaces	0.3%
Other Operating Expenses / Contingency	\$106,500 @	\$1,500 Per FTE	1.6%
Subtotal Operating Expenses	\$6,285,518		95.2%
Capital Reserves	\$2,460,793		
	\$337,721		
Capital Reserves	\$314,276 @	5% of Op. Expenses	4.8%
Total Operating Costs	\$6,599,794		100.0%
Operating Analysis			
Operating Expense Per SF	\$90.44		
Operating Expense Per Visitor	\$26.40		
Attendees Per FTE	3,521		
Op. Exp Per FTE	\$92,955		
Square Feet Per FTE	1,028		

^{1/} Factors are based on industry standards, the specific attributes of the project and local conditions.

^{2/} Source: Ten Eyck Landscape Architects, Inc.

Source: ConsultEcon, Inc.

Appendix A (continued)

Table IX-7
 Projected Operating Expenses *Below Low-Range Test Case*
 Desert Discovery Center

Year	2014	2015	2016	2017	2018	Stable Yr (in current dollars)	Percent to Total
Operating Expenses	YEAR 1	YEAR 2	STABLE YEAR 3	YEAR 4	YEAR 5		
Salaries (FTE, PTE)	\$2,794,531	\$2,864,394	\$2,936,004	\$3,009,404	\$3,084,640	\$2,595,000	39.3%
Fringe / Benefits (@ 28% of Sal.)	\$782,469	\$802,030	\$822,081	\$842,633	\$863,699	\$726,600	11.0%
Allowance for Interns & Seasonal Personnel	\$40,383	\$41,393	\$42,428	\$43,489	\$44,576	\$37,500	0.6%
Uniforms	\$7,535	\$7,723	\$7,916	\$8,114	\$8,317	\$7,100	0.1%
Professional/Contract Services	\$233,572	\$238,243	\$243,008	\$247,868	\$252,826	\$220,100	3.3%
Voice/Data/Web Presence	\$79,113	\$80,695	\$82,309	\$83,955	\$85,635	\$74,550	1.1%
Postage & Shipping	\$26,371	\$26,898	\$27,436	\$27,985	\$28,545	\$24,850	0.4%
Equipment Rental/ Lease	\$30,138	\$30,741	\$31,356	\$31,983	\$32,623	\$28,400	0.4%
Travel, Meeting and Entertainment	\$37,673	\$38,426	\$39,195	\$39,979	\$40,778	\$35,500	0.5%
Dues and Subscriptions	\$18,836	\$19,213	\$19,597	\$19,989	\$20,389	\$17,750	0.3%
Retail Cost of Goods Sold (COGS)	\$640,704	\$571,829	\$555,491	\$566,600	\$580,822	\$503,125	7.6%
Advertising	\$668,561	\$596,691	\$579,642	\$591,235	\$606,075	\$525,000	8.0%
Printing/Copying & Publications	\$159,181	\$142,069	\$138,010	\$140,770	\$144,304	\$125,000	1.9%
Educational Kits	\$52,530	\$57,112	\$66,245	\$67,570	\$69,266	\$60,000	0.9%
Events & Programs	\$185,711	\$189,426	\$193,214	\$197,078	\$201,020	\$175,000	2.7%
Changing Exhibits / Curatorial	\$185,711	\$189,426	\$193,214	\$197,078	\$201,020	\$175,000	2.7%
Exhibit Reinvestment	\$185,711	\$189,426	\$193,214	\$197,078	\$201,020	\$175,000	2.7%
Exhibit Supplies	\$26,530	\$27,061	\$27,602	\$28,154	\$28,717	\$25,000	0.4%
Exhibit Replacement	\$12,734	\$12,989	\$13,249	\$13,514	\$13,784	\$12,000	0.2%
Supplies & Materials	\$143,157	\$146,020	\$148,941	\$151,919	\$154,958	\$134,900	2.0%
Utilities	\$232,315	\$236,962	\$241,701	\$246,535	\$251,466	\$218,916	3.3%
Insurance	\$92,926	\$94,785	\$96,680	\$98,614	\$100,586	\$87,566	1.3%
Repairs & Maintenance	\$108,414	\$110,582	\$112,794	\$115,050	\$117,351	\$102,161	1.5%
Groundskeeping/Landscaping Supplies & Replacement	\$79,591	\$81,182	\$82,806	\$84,462	\$86,151	\$75,000	1.1%
Parking Maintenance	\$19,102	\$19,484	\$19,873	\$20,271	\$20,676	\$18,000	
Other Operating Expenses / Contingency	\$113,019	\$115,279	\$117,585	\$119,936	\$122,335	\$106,500	1.6%
Miscellaneous ^{1/}	\$208,696	\$103,951	\$0	\$0	\$0	\$0	0.0%
Total Operating Expenses	\$7,165,216	\$7,308,520	\$7,454,690	\$7,603,784	\$7,755,860	\$6,285,518	95.2%
Capital Reserves ^{2/}	\$358,261	\$365,426	\$372,735	\$380,189	\$387,793	\$314,276	4.8%
Total Operating Costs	\$7,523,477	\$7,673,946	\$7,827,425	\$7,983,973	\$8,143,653	\$6,599,794	100.0%

^{1/} To accommodate higher attendance levels after opening in Years 1 and 2 and unforeseen early year expenditures, the operating expenses have been increased by 3% and 1.5%, respectively, in addition to inflation.

^{2/} Capital Reserves include funds for equipment replacements and minor building repairs/improvements.

Source: ConsultEcon, Inc

Table IX-8
Net Income Summary *Below Low-Range Test Case*
Desert Discovery Center

	Stabilized Attendance Levels ^{1/}	2014 YEAR 1	2015 YEAR 2	2016 STABLE YEAR 3	2017 YEAR 4	2018 YEAR 5
Revenues						
Operational Revenues	\$4,110,483	\$5,332,797	\$4,698,546	\$4,613,433	\$4,651,779	\$4,864,135
Non-Operational Revenues						
Operating Reserves Interest	\$178,099	\$189,000	\$192,606	\$196,282	\$200,027	\$203,844
Other Non-Operational Revenues ^{2/}	\$2,311,212	\$2,001,679	\$2,782,793	\$3,017,710	\$3,132,168	\$3,075,674
	\$6,599,794	\$7,523,477	\$7,673,946	\$7,827,425	\$7,983,973	\$8,143,653
Expenses						
Operating Costs	\$6,285,518	\$7,165,216	\$7,308,520	\$7,454,690	\$7,603,784	\$7,755,860
Capital Reserves	\$314,276	\$358,261	\$365,426	\$372,735	\$380,189	\$387,793
	\$6,599,794	\$7,523,477	\$7,673,946	\$7,827,425	\$7,983,973	\$8,143,653
Net Revenue	\$0	\$0	\$0	\$0	\$0	\$0

^{1/} Revenue and expense in current dollars.

^{2/} Estimates of Non-Operational Revenue Potential have been limited to the extent required. Higher amounts would be sought.

Source: ConsultEcon, Inc.

Memorandum

To: City of Scottsdale and DDC Phase III Committee

From: Robert E. Brais, ConsultEcon, Inc.

Date: January 9, 2012

RE: Response to DDC Review Committee Request to Evaluate a \$5-million DDC Operating Scenario

Following are additional data and analyses for the DDC Review Committee regarding the potential market performance and operations of the Desert Discovery Center (DDC). Based on the current phase of planning and the need for careful review of the market and operating aspects of this project, the committee has requested that ConsultEcon (CEI) analyze the implications of much lower attendance and a much lower operating profile and operating expense budget than the baseline plan as analyzed and estimated in the August 2010 *Desert Discovery Center – Business Plan* prepared by CEI. A \$5-million operating budget and much lower attendance that would be a likely outcome of a lower operating profile are the key changes explored in this analysis. In previous “what-if” analyses prepared for the committee, CEI had prepared other low range operating scenarios and had addressed questions and comments regarding the market and operating potential of DDC. This memorandum assumes that the reader is familiar with these other analyses.

The report August 2010 *Desert Discovery Center – Business Plan* is not the final operating plan. The business plan will evolve as will the facility design and visitor experience design, based on the sponsoring organization and future market and economic conditions. Therefore, from a planning and oversight perspective, the analyses presented in this memorandum supplement the original August 2010 report and the previous supplementary analyses prepared for the committee. It also takes into account the following possibilities:

- ◆ Future operating results will be affected by: the characteristics and capacity of the sponsoring organization; the manner in which DDC is operated and marketed; and the characteristics of pre-opening and start-up operations.
- ◆ If the DDC is smaller or does not have the design characteristics as proposed by Swaback Partners or the proposed project capitalization, its operating profile is likely to be different.
- ◆ If the operating profile, community support or the operating budgets evaluated in the August 2010 *Desert Discovery Center – Business Plan* report are not implemented, then operating results are likely to be different.

- ◆ It is likely that the stable year of operations may not occur for 6 to 7 or more years depending on development phasing, construction timing, program development and implementation, and the number of years until stable operations is achieved. Therefore, there is uncertainty about future economic conditions that all major community investments must evaluate on an ongoing basis.

\$5-million Operating Budget Scenario

The mid-range operating scenario has been established as a reasonable planning baseline, and the CEI November 22 memorandum to the committee included a low-range attendance operating analysis (250,000 stabilized year attendance). The operating budget in the mid-range scenario was \$7.4 million and in the low-range attendance scenario, it was \$6.6 million.¹ The committee has asked for an analysis of the implications of a \$5-million operating budget. The following is an analysis of this \$5-million Operating Budget Scenario.

Assumptions:

1. **Facility size** – The ultimate facility is assumed to be the full build out scenario of 72,972 Total Indoor Gross Square Footage and 70,700 Total Exterior Square Footage, as designed by Swaback Partners. The capital budget also is assumed to reflect this full build out scenario.
2. **Operating Budget** – The total operating budget is \$5 million (in current dollars and not including any capital reserves).² With operating reserves approximately \$5.28 million.
3. **Personnel**- The number of personnel varies considerably between scenarios from 79 FTE's in the Mid-range to 71 in the low range attendance scenario to 54 in the \$5 million Operating Budget Scenario. Since many costs are fixed or semi-variable, a primary means to achieving the \$5 million budget is through reducing personnel.
4. **Attendance** – Both as a result of the lower operating budget and because a lower operating budget would be the result of a lower level of market support, the attendance estimate used is 215,000 in a stabilized year. The mix of attendees changes somewhat to reflect the changing attendance profile.
5. **Ticket Prices** – Ticket prices remain the same as in prior analyses, at baseline prices of \$15.00 for adults and \$9.00 for children.
6. **Auxiliary spending** – This model assumes fewer facility rentals and lower restaurant lease income (\$17.50 per SF).
7. **Operational Revenue** – The estimated lower attendance and operating assumptions yield a much lower operational or earned revenue level for this low-budget scenario. In this

¹ Note that about 10 percent of the operating budget is variable based on attendance and student groups for items including retail cost of goods sold, printing and consumables and educational kits. Therefore some of the difference between scenarios is based on the attendance differences.

² Note: the \$5-million Operating Budget Scenario would require, in addition to the baseline operating budget, annual capital reserves equal to 5 percent of the operating budget – a prudent and typical operating approach used by virtually all museum and attractions operators.

scenario, operational revenue is an estimated \$3.5 million compared to the mid-range attendance scenario at \$5.6 million.

8. **Non-Earned Revenue** – The amount of non-earned revenue required in the \$5-million operating budget scenario is estimated at \$1.8 million, about equal to the requirement of the mid-range attendance operating scenario. The major reason for this is that the facility size is suitable for attendance levels well above the 215,000 stabilized year attendance estimated for the \$5-million Operating Budget Scenario.

Data in **Appendix A** provide a summary of the analytical tables supporting the \$5-million Operating Budget Scenario. The operational revenue potential for the \$5-million Operating Budget Scenario is \$3.5 million in stable year in current dollars, and non-Operational Revenue target of \$1.77 million (non-earned and contributed). Operational revenues cover approximately 66 percent of the operating expenses (when the additional capital reserves are also included) in this operating scenario. This sensitivity analysis indicates that given the scale of the facility, there is an operating expense threshold where reductions in operating budgets are counterproductive in that they would reduce marketing, outreach, programs, exhibits and maintenance that support visitation.

Summary of Alternative Operating Analyses and Comparable Facilities

Analysis of operations under the \$5-million Operating Budget Scenario and case study facilities are compared in data in **Table 1** using information from the August 2010 *Desert Discovery Center – Business Plan* and the November analysis. Data in **Table 2** The summary presented in the table below also compares the results for the \$5-million Operating Budget Scenario with the Low-Range Attendance Scenario prepared in November 2011 and the baseline mid-range attendance operating plan.

Table 1
Mid-Range, Low Test Case and \$5 million Operating Budget Scenarios Comparison
Sensitivity Testing

Revenue Source	Mid-Range	% to Total	Low Test Case	% to Total	\$5 Million Operations Scenario	% to Total
Attendance	333,000		250,000		215,000	
Earned Revenue	\$6,164,850	70%	\$3,942,000	63%	\$3,500,000	66%
Non-Earned Revenue	\$196,000	2%	\$196,000	3%	\$196,000	4%
Contributed Revenue						
Required	\$2,460,000	28%	\$2,132,000	34%	\$1,581,000	30%
Total Revenue	\$8,820,850	100%	\$6,270,000	100%	\$5,277,000	100%
Operating Expenses	\$8,821,000		\$6,270,000		\$5,277,000	

Note: This analysis assumes that the full DDC is developed per the plan, but that attendance is below the low range established for the business plan.

Source: ConsultEcon, Inc.

Table 2
Comparison of Desert Discovery Center Operating Scenarios with Case Studies

Facility	Attendance	Operational Revenue	Non-Operational Revenue	Operating Expenses	FTE Employees ^{1/}	
Abraham Lincoln Presidential Library and Museum	410,000	NA	NA	\$10,000,000	47.5	
Arizona-Sonora Desert Museum	400,000	\$5,117,000	\$3,036,000	\$8,056,000	122	
Desert Botanical Garden	320,000	\$4,764,000	\$6,811,000	\$8,537,000	110	
High Desert Museum	150,000	\$2,200,000	\$1,306,000	\$3,972,000	44	
Las Vegas Springs Preserve	206,000	\$1,569,000	\$10,633,000	\$12,182,000	89	
Living Desert	325,000	\$5,876,000	\$1,407,000	\$9,088,000	110	
Wild Center - The Natural History Museum of the Adirondacks	100,000	\$1,942,000	\$2,901,000	\$4,676,000	42	
<i>DDC Mid Range Attendance - Baseline Planning Scenario</i>	333,000	5,552,000	1,842,000	7,394,000	79.3	
<i>DDC Low Range Attendance Scenario</i>	250,000	4,110,000	2,489,000	6,600,000	71.0	
<i>DDC Low Range Operations - \$5mm Budget Scenario</i>	215,000	3,500,000	1,777,000	5,277,000	54.0	
Operating Analyses						
		Operational Revenue Per Capita	Operational Revenue as a % to Total Revenue	Operating Expenses per Attendee	Operating Expenses per FTE	Attendees per FTE
Abraham Lincoln Presidential Library and Museum				\$24.39	\$210,526	8,632
Arizona-Sonora Desert Museum	\$12.79	63%	\$20.14	\$66,033	3,279	
Desert Botanical Garden	\$14.89	41%	\$26.68	\$77,609	2,909	
High Desert Museum	\$14.67	63%	\$26.48	\$90,273	3,409	
Las Vegas Springs Preserve	\$7.62	13%	\$59.14	\$136,876	2,315	
Living Desert	\$18.08	81%	\$27.96	\$82,618	2,955	
Wild Center - The Natural History Museum of the Adirondacks	\$19.42	40%	\$46.76	\$111,333	2,381	
<i>DDC Mid Range Attendance - Baseline Planning Scenario</i>	\$16.67	75%	\$22.20	\$93,300	4,202	
<i>DDC Low Range Attendance Operating Scenario</i>	\$16.44	62%	\$26.40	\$92,958	3,521	
<i>DDC Low Range Operations - \$5mm Budget Scenario</i>	\$16.28	66%	\$24.54	\$97,722	3,981	

^{1/} FTE = Full-Time Equivalent. Part-time employees at 50% of full-time employee and seasonal employees at 25% of full-time employee.
Source: Facilities profiled and ConsultEcon, Inc.

Based on the results of the DDC operating scenarios and the comparisons with the operating budgets of case study facilities, it can be seen that there is an association between facility scale and operations and attendance and revenues. Further, it is difficult to simply reduce operating expenses without carefully planning revenue sources to meet the facility needs for support, such as maintenance and utilities. Lastly, the operating budgets planned for the full build-out of the facility are appropriate for the project as currently described. A smaller or less robustly operated facility would have less revenue capacity due to lower operating budgets.

Moreover, its requirements for non-earned revenues may not be commensurately lower, as shown in the analysis above.

It should be noted that the results of the \$5-million Operating Budget Scenario are not considered a likely outcome if the DDC is developed as described in the 2010 report. The facility size and market potential would likely warrant a more robust operating model that would not reduce operations to the extent characterized in the \$5-million Operating Budget Scenario and thus, the impact on attendance and earned revenue would not be as pronounced. If future operations were not to meet the potential established by the business plan, a somewhat higher operating equilibrium is likely – higher attendance, higher revenues and larger operating budgets than is shown in the \$5-million Operating Budget Scenario.

Operating Reserves

The \$5-million Operating Budget Scenario has been developed for analytical purposes to demonstrate possible outcomes of operating on a constrained budget. If however, the DDC is underfunded in its pre-opening and in its operating budgets from the outset, it would become more likely that a lower level of operations would be perpetuated. Therefore, the \$6.3 million in capital reserves planned as part of the project's initial capital cost is particularly important to establishing a sound financial basis for the project that supports the development of a first-rate reputation and competitive position in the marketplace. This operating reserve would be available for any contingencies, as well as to provide funding should fundamental shifts in the organization's structure be necessary to reach a new equilibrium between revenue sources and operating costs.

Appendix A - \$5 Million Operating Budget Scenario ^{3/}

Table VIII-1
Preliminary Attendance Potential \$5 million Operating Budget Scenario
Desert Discovery Center

	Market Penetration Rates			Visitation Range			Percent to Total
	Estimated 2014 Market Population	Low	High	Low Range Attendance	Mid Range Attendance	High Range Attendance	
Resident Market							
Primary Market Area	260,200	6.00%	8.00%	15,612	18,214	20,816	8.5%
Secondary Market Area	2,165,200	2.00%	2.70%	43,304	50,882	58,460	23.7%
Tertiary Market Area	2,574,700	1.25%	1.70%	32,184	37,977	43,770	17.7%
Total Resident Market	5,000,100	1.82%	2.46%	91,100	107,073	123,046	49.8%
Visitor (Tourist) Market							
	Estimated 2008 Tourist Market ^{1/}	Low	High	Low Range Attendance	Mid Range Attendance	High Range Attendance	
<i>Scottsdale Overnight Visitors</i>							
Domestic & International Overnight Hotel Visitors	1,183,000	2.00%	2.75%	23,660	28,096	32,533	13.1%
Visiting Friends & Relatives (VFRs)	237,000	1.50%	2.00%	3,555	4,148	4,740	1.9%
Overnight Visitors Staying in Seasonal Homes	136,000	1.20%	1.75%	1,632	2,006	2,380	0.9%
<i>Scottsdale Day-Trip Visitors</i>							
Domestic Overnight Day-Trippers to Scottsdale ^{2/}	6,895,000	0.60%	0.80%	41,370	48,265	55,160	22.5%
<i>International Overnight Visitors to Metro Phoenix, Not Staying in Scottsdale ^{3/}</i>							
	2,031,000	1.00%	1.50%	20,310	25,388	30,465	11.8%
Total Visitor (Tourist) Market	10,482,000	0.86%	1.20%	90,527	107,902	125,278	50.2%
Total Stabilized Attendance Potential Range				181,627	214,975	248,324	100.0%
Mid Range Attendance ^{4/}				182,000	215,000	248,000	

^{1/} Based on latest data available. This is a reasonable assumption for future tourism activity.

^{2/} The City of Scottsdale defines this segment as day visitors in its annual Scottsdale/Paradise Valley tourism study. Day visitors are domestic overnight tourists staying in accommodations outside of the Scottsdale/Paradise Valley.

^{3/} International overnight visitors is derived from Mexican, Canadian and Overseas visitors to Arizona.

^{4/} Rounded to nearest 1,000.

Source: ConsultEcon, Inc.

Table VIII-2
Five Year Attendance Potential Pattern \$5 million Operating Budget Scenario
Desert Discovery Center

	YEAR 1	YEAR 2	STABLE YEAR 3	YEAR 4	YEAR 5
Percentage of Stabilized Attendance	120%	105%	100%	100%	100.5%
Mid Range Visitation Potential	258,000	225,750	215,000	215,000	216,075

NOTE: DDC is expected to open in 2014. Therefore, Year 1 represents 2014.

^{1/} Stabilized attendance expected to occur in Year 3. This analysis assumes that the full facility will be open for Year 1 of operations.

Source: ConsultEcon, Inc.

^{3/} Changes in the assumptions used in the \$5 million operating Budget Scenario from those used in the August 2010 *Desert Discovery Center – Business Plan* are highlighted in blue shading, with differing results shaded in green.

Appendix A (continued)

Table VIII-3
Seasonality of Attendance \$5 million Operating Budget Scenario
Desert Discovery Center

	Low Attendance Scenario		Mid-Range Attendance		High Attendance Scenario	
	Seasonality	Total Attendance	Seasonality	Total Attendance	Seasonality	Total Attendance
January	7%	12,712	7%	15,050	7%	17,381
February	9%	16,344	9%	19,350	9%	22,347
March	11%	19,976	11%	23,650	11%	27,313
April	13%	23,608	13%	27,950	13%	32,279
May	11%	19,976	11%	23,650	11%	27,313
June	7%	12,712	7%	15,050	7%	17,381
July	6%	10,896	6%	12,900	6%	14,898
August	6%	10,896	6%	12,900	6%	14,898
September	6%	10,896	6%	12,900	6%	14,898
October	8%	14,528	8%	17,200	8%	19,864
November	8%	14,528	8%	17,200	8%	19,864
December	8%	14,528	8%	17,200	8%	19,864
Total ^{1/}	100%	182,000	100%	215,000	100%	248,000

^{1/} Rounded to nearest 1,000.
Source: ConsultEcon, Inc.

Table VIII-4
Facility Sizing Parameters \$5 million Operating Budget Scenario
Desert Discovery Center

	Mid-Range Attendance				
Annual Visitation ^{1/}	215,000				
	Peak Periods		Average Periods During Peak Months		Facility Rentals
Peak Month Attendance	27,950				
Average Month Attendance			17,917		
High Week at 28% of peak month	7,826		5,017		
High Day Attendance at 18% of high week	1,409		903		
Length of Stay	(2 hr. stay - 30%)	(2.5 hr. stay - 35%)	(2 hr. stay - 30%)	(2.5 hr. stay - 35%)	
Peak in-house Population	423	493	271	316	
Rounded	420	490	270	320	
High Day Parking Requirement ^{2/}	168	196	108	128	
Potential for Event Parking Demand ^{3/4/}					200

^{1/} Early year attendance may be fifteen percent higher or more. However, this analysis uses a more conservative assumption of 10% for financial modeling purposes.

^{2/} Based on 95 percent auto usage during peak daytime periods (bus usage is higher during the shoulder seasons from school groups and tour groups), 2.5 persons per vehicle. Plus 5% turnover requirement. Does not include employee, volunteer and other administrative visitor parking. This is for DDC only. The parking will need to be considered in the context of the Gateway trailhead use and parking needs.

^{3/} Estimated at one car per two attendees at events of 300 people per event, plus 50 cars for caterers and servers, security, DDC staff, volunteers etc.

^{4/} Most major facility rentals will be during evenings or at the end of the day, so they would seldom overlap with the peak in-house times of day which tend to be 10am to 2pm. Further, if there were a need for a mid-day facility rental, the parking might be accommodated through mitigation measures such as remote parking shuttles etc. For the vast majority of events parking demand is accommodated by parking available because the demand from hikers and/or DDC attendees is lower at the time of the event.

Source: ConsultEcon, Inc.

Appendix A (continued)

Table IX-1
Admissions Analysis in Current Dollars \$5 million Operating Budget Scenario
Desert Discovery Center

Per Capita Ticket Revenue					
	% to Total Attendance	Attendance By Type	Ticket Price	Contribution to Ticket Per Capita	Percent Contribution to Ticket Per Capita
Adult	35.80%	76,970	\$15.00	\$3.37	60.8%
Senior	16.50%	35,475	\$12.25	\$2.02	22.9%
Youth (3-12)	15.50%	33,325	\$9.00	\$1.40	15.8%
Student Group	8.60%	18,490	\$6.00	\$0.52	5.8%
Members	12.20%	26,230	\$0.00	\$0.00	0.0%
Facility Rentals	7.10%	15,265	\$0.00	\$0.00	0.0%
Free/Complimentary ^{1/}	4.30%	9,245	\$0.00	\$0.00	0.0%
Less Discounts & Coupons @ 5%				(\$0.47)	-5.3%
Total	100.00%	215,000		\$8.84	100.0%
Memberships Estimates					
		Membership Types	Percent to Total	Estimated Number of Memberships	Avg. Price By Type
No. of Member Attendances	26,230	Individual	20.5%	672	\$40
Average Annual Attendances Per Membership	8	Dual	35.0%	1,148	\$70
Est. Total Memberships	3,280	Family	40.0%	1,312	\$125
Average Membership Fee	\$100.00	Donor	3.0%	98	\$250
Membership Revenue	\$328,000	Sponsor	1.0%	33	\$500
		Patron	0.5%	16	\$1,000
			100.0%	3,279	\$100.10
				Rounded:	\$100.00

^{1/} Includes children aged 2 and under, complimentary tickets, VIPs, special events & programs etc.

Source: ConsultEcon, Inc.

Appendix A (continued)

Table IX-3
Operations Analysis Assumptions In Current Dollars, Unless Noted \$5 million Operating Budget Scenario
Desert Discovery Center

<i>General</i>		<i>Comments</i>
Year Assumed to Open to Public	2014	
Indoor Gross Exhibit Square Footage	34,200	(28,500 NSF)
Total Indoor Gross Square Footage	72,972	
Total Exterior Square Footage	70,700	
Mid-Range Attendance	215,000	
Annual Inflation Rate	2.0%	
Personnel & Benefits Annual Inflation Rate	2.5%	
Annual Attendance Growth after Year 4	0.5%	
<i>Admission Fees and Revenue</i>		
Adult Ticket Price	\$15.00	
Per Capita Ticket Revenue	\$8.84	
Coupons & Discounts as a % of Per Capita Ticket Rev.	3.0%	
Ticket Price Increase % every other year	5.0%	
<i>Retail</i>		
Retail Area Gross Square Footage	2,400	(2,000 NSF)
Per Capita Retail Sales	\$3.50	
Outside Retail Sales as Percent of Per Capita Retail Sales	15%	
Cost of Goods Sold as a % of Retail Sales	50%	
<i>Food Service</i>		
Vending and Retail Shop Per Capita Food / Beverage Sales	\$0.75 ^{1/}	
DDC Net Proceeds from Vending & Store Food Sales	25.0%	
Cafe/Restaurant Indoor Gross Square Footage	3,120	Assumes 80 seats
Desert Dining Garden Outdoor Square Footage	2,000	
Restaurant Base Lease Rate Per SF in 2014 Dollars	\$17.50	\$35.00 ^{2/}
DDC Net Proceeds of Restaurant Gross Sales	2.0% ^{3/}	
<i>Family & Individual Memberships</i>		
Number of Family, Individual & Supportive Memberships	3,280	Stable Year
Average Membership Fee	\$100.00	
Annual Attendances Per Membership	8	
<i>Facility Rentals and Receptions</i>		
Major Rentals Per Year	40	
Target Attendance in Stable Year	12,000	Avg. 300 per event
Average Net Revenue per Rental	\$5,400	
Medium Rentals Per Year	24	
Target Attendance in Stable Year	2,400	Avg. 100 per event
Average Net Revenue per Rental	\$1,800	
Minor Rentals Per Year (primarily Birthday Parties)	80	
Target Attendance in Stable Year	2,000	Avg. 25 per event
Average Net Revenue per Rental	\$270	
<i>Other Revenue</i> As a % of Earned Revenue	1% ^{4/}	
<i>Operating Reserves</i>		
Operating Reserve Assumption in 2014	\$6,300,000 ^{5/}	
Annual Growth Rate above Inflation Rate	3%	
Annual Interest	3%	

NOTE: Assumes DDC Program of Arcas dated June 16, 2010 by Swaback Partners.

^{1/} Limited vending and beverage / snacks available in gift shop. Other food provided by cafe.

^{2/} In 2014 dollars. Three-year term increased at inflation for 2nd term.

^{3/} Restaurant assumed to hold a liquor license. Restaurant gross sales estimated based on \$8 per capita for DDC visitors, plus \$10 average spend from an assumed 18,000 (50 per day) annual outside patrons who are drawn from from trail users and from drive-up customers.

^{4/} Other revenues include revenue from programs, special events, stroller rentals, lockers and other sources.

^{5/} In 2014 dollars.

Source: ConsultEcon, Inc. and Swaback Partners

Appendix A (continued)

Table IX-4
Earned Revenue Potential \$5 million Operating Budget Scenario
Desert Discovery Center

Year	2014	2015	2016	2017	2018	Stable Yr Att. (in current dollars)	Percent to Total
	YEAR 1	YEAR 2	STABLE YEAR 3	YEAR 4	YEAR 5		
TOTAL ATTENDANCE	258,000	225,750	215,000	215,000	216,075	215,000	
Per Capita Ticket Revenue	\$9.73	\$9.49	\$9.86	\$9.86	\$10.34	\$8.84	
REVENUE							
Operational Revenue							
Ticket Revenue	\$2,511,604	\$2,143,011	\$2,120,029	\$2,120,029	\$2,234,664	\$1,899,985	35.6%
Membership Revenue	376,300	356,160	364,080	364,080	386,100	\$328,000	6.1%
Gross Retail	1,102,011	983,545	955,444	974,553	999,014	865,375	16.2%
Food Service Net	51,336	45,817	44,508	45,398	46,538	40,313	0.8%
Café/Restaurant Lease Revenue	167,779	158,072	156,675	163,865	165,080	94,451	1.8%
Facility Rental	302,572	270,045	262,330	267,576	272,928	237,600	4.4%
Other Revenue	45,116	39,567	39,031	39,355	41,043	34,657	0.6%
Total Operational Revenue	\$4,556,718	\$3,996,217	\$3,942,097	\$3,974,856	\$4,145,367	\$3,500,380	65.5%
Non-Operational Revenue							
Operating Reserves Interest	\$189,000	\$192,606	\$196,282	\$200,027	\$203,844	\$178,099	3.3%
"	\$1,352,598	\$2,031,458	\$2,206,309	\$2,296,698	\$2,251,801	\$1,663,306	31.1%
TOTAL REVENUE	\$6,098,316	\$6,220,282	\$6,344,688	\$6,471,581	\$6,601,013	\$5,341,785	100.0%
Operating Reserves Growth	\$6,300,000	\$6,420,217	\$6,542,727	\$6,667,575	\$6,794,806	\$5,936,631	

NOTE: DDC is expected to open in 2014. Therefore, Year 1 represents the inflated 2014 dollar value.

// Represents potential revenue from grants, gifts, corporate sponsorships, fundraising events, endowment proceeds and other relevant sources. See discussion in text.

Source: ConsultEcon, Inc.

Table IX-5
 Illustrative Personnel Positions and Salaries \$5 million Operating Budget Scenario
 Desert Discovery Center

Position	Undiscounted Salary levels	Percent Discount	Adjusted Annual Salaries (FTE)	Part-Time Seasonal (Peak Season) Salaries	Number of Full Time Positions	Number of Part Time Positions	Number of Peak Season Positions	Total Salary Budget
Administration								
Executive Director	\$150,000	15%	\$127,500		1			\$127,500
Business Manager / CFO	\$100,000	10%	\$90,000		1			\$90,000
Personnel Manager	\$55,000	5%	\$52,250		0	1		\$26,125
Account Manager / Bookkeeper	\$45,000	5%	\$42,750		1	0		\$42,750
Receptionist/Administrative Asst.	\$29,000	5%	\$27,550			1		\$13,775
Marketing, Development, Membership and Facility Rentals								
Marketing Manager	\$80,000	10%	\$72,000		1			\$72,000
Marketing Coordinator/Administrative Asst.	\$35,000	5%	\$33,250		0			\$0
Development Manager	\$90,000	10%	\$81,000		1			\$81,000
Grant Writer / Development Data Coordinator	\$50,000	5%	\$47,500		1			\$47,500
Membership Manager	\$55,000	7%	\$51,150		1			\$51,150
Membership Coordinator	\$35,000	5%	\$33,250			1		\$16,625
Marketing & Membership Administrative Asst.	\$35,000	5%	\$33,250			0		\$0
Events Coordinator	\$50,000	5%	\$47,500		1			\$47,500
Facility Rentals Coordinators	\$45,000	5%	\$42,750		1	1		\$64,125
Visitor Services and Education Programs								
Manager of Education Programs and School Groups	\$50,000	5%	\$47,500		1			\$47,500
Education and Public Program Manager	\$50,000	5%	\$47,500		1			\$47,500
Educators	\$32,000	5%	\$30,400		1	1		\$45,600
Visitor Services Manager and Training Assistantist. & Volunteers (Visitor)	\$35,000	5%	\$33,250		1	0		\$33,250
Visitor Assistants	\$22,000	2%	\$21,560		6	6		\$194,040
Visitor Assistants (Peak Season)				\$5,000			3	\$15,000
Retail & Admissions								
Museum Store Manager / Buyer	\$60,000	7%	\$55,800		1			\$55,800
Assistant Store Manager	\$40,000	5%	\$38,000		1			\$38,000
Admissions Manager	\$55,000	5%	\$52,250		0			\$0
Group Sales Reservationist / Membership Sales	\$25,000	2%	\$24,500		0	1		\$12,250
Cashiers - Admissions/Retail	\$21,000	2%	\$20,580		4	5		\$133,770
Cashiers - Admissions/Retail (Peak Season)				\$4,500			3	\$13,500
Exhibits								
Multimedia Program & Exhibit Manager	\$75,000	7%	\$69,750		1			\$69,750
IT / Multimedia Technician / Web Site	\$70,000	5%	\$66,500		0	1		\$33,250
Changing Exhibit Gallery Coordinator	\$40,000	5%	\$38,000		0			\$0
Exhibit Technician	\$35,000	5%	\$33,250		2	2		\$99,750
Plant Operations, Living Specimen Husbandry								
Facility Manager / Engineer	\$55,000	7%	\$51,150		1			\$51,150
Assistant Facility Manager / Engineer	\$40,000	5%	\$38,000		1			\$38,000
Biologist	\$50,000	5%	\$47,500		1			\$47,500
Horticulturist	\$50,000	5%	\$47,500		1	0		\$47,500
Biologists / Horticulturists (Interns)				\$12,000		2		\$12,000
Staff Technician / HVAC / Life Support Systems	\$28,000	2%	\$27,440		1			\$27,440
Custodians	\$22,000	2%	\$21,560		2	1		\$53,900
Groundskeepers	\$22,000	2%	\$21,560		1	1		\$32,340
Lead Security Guard	\$28,000	2%	\$27,440		2			\$54,880
Security Guards	\$24,000	2%	\$23,520			5		\$58,800
Total					38	29	6	\$1,942,520
Fringe & Benefits @ Average of				28% of Total Salaries				\$543,906
Total Salaries & Benefits Budget								\$2,486,426
Total Full Time Equivalent Positions (FTE'S)								54.00

NOTES: Part Time Employees Calculated at 50% FTE, seasonal workers at 25% FTE. Volunteers would serve to supplement some positions such as Visitor Assistants. Visitor Assistants and Cashiers paid positions be supplemented by Volunteers.
 Source: ConsultEcon, Inc.

Table IX-6
Illustrative Annual Operating Expenses \$5 million Operating Budget Scenario
Desert Discovery Center

Project Parameters			
Indoor Square Footage	72,972		
Exterior Square Footage	70,700		
Annual Attendance	215,000		
Students in Groups	18,490		
Employees (FTEs)	54.00	See Personnel Schedule	Percent to Total
Detailed Budgetary Analysis			
	Annual Amount	Expense Factors ^{1/}	
Salaries (FTE, PTE)	\$1,942,520	See Personnel Schedule	36.8%
Fringe / Benefits (@ 28% of Sal)	\$543,906	See Personnel Schedule Budgeted at \$15/hour for	10.3%
Allowance for Interns & Seasonal Personnel	\$15,000	1,000 hours	0.3%
Uniforms	\$5,400 @	\$100 Per FTE	0.1%
Professional/Contract Services	\$189,000 @	\$3,500 Per FTE	3.6%
Voice/Data/Web Presence	\$64,800 @	\$1,200 Per FTE	1.2%
Postage & Shipping	\$18,900 @	\$350 Per FTE	0.4%
Equipment Rental/ Lease	\$24,300 @	\$450 Per FTE	0.5%
Travel, Meeting and Entertainment	\$32,400 @	\$600 Per FTE	0.6%
Dues and Subscriptions	\$13,500 @	\$250 Per FTE	0.3%
Retail Cost of Goods Sold (COGS)	\$432,688 @	50% Of Gross Retail Sales	8.2%
Advertising	\$451,500 @	\$2.10 Per Attendee	8.6%
Printing/Copying & Publications	\$64,500 @	\$0.30 Per Attendee	1.2%
Educational Kits	\$55,470 @	\$3.00 Per Student	1.1%
Events & Programs	\$160,000	Budgeted	3.0%
Changing Exhibits	\$160,000	Budgeted	3.0%
Exhibit Reinvestment	\$150,500 @	\$0.70 Per Attendee	2.9%
Exhibit Supplies	\$20,000	Budgeted	0.4%
Exhibit Replacement	\$12,000	Budgeted	0.2%
Supplies & Materials	\$108,000 @	\$2,000 Per FTE	2.0%
Utilities	\$218,916 @	\$3.00 Per Interior SF	4.1%
Insurance	\$87,566 @	\$1.20 Per Interior SF	1.7%
Repairs & Maintenance	\$102,161 @	\$1.40 Per Interior SF	1.9%
Grounds keeping/Landscaping Supplies & Replacement	\$60,000 @	\$5,000 Per Month ^{2/}	1.1%
Parking Maintenance	\$11,880	Budgeted for 220 spaces	0.2%
Other Operating Expenses / Contingency	\$81,000 @	\$1,500 Per FTE	1.5%
Subtotal Operating Expenses	\$5,025,906		95.2%
Capital Reserves	\$2,106,793	\$251,295 @	5% of Op. Expenses
	\$691,721		4.8%
Total Operating Costs	\$5,277,202		100.0%
Operating Analysis			
Operating Expense Per SF	\$72.32		
Operating Expense Per Visitor	\$24.55		
Attendees Per FTE	3,981		
Op. Exp Per FTE	\$97,726		
Square Feet Per FTE	1,351		

^{1/} Factors are based on industry standards, the specific attributes of the project and local conditions.

^{2/} Source: Ten Eyck Landscape Architects, Inc.

Source: ConsultEcon, Inc.

Appendix A (continued)

Table IX-7
 Projected Operating Expenses \$5 million Operating Budget Scenario
 Desert Discovery Center

Year	2014	2015	2016	2017	2018	Stable Yr (in current dollars)	Percent to Total
Operating Expenses	YEAR 1	YEAR 2	STABLE YEAR 3	YEAR 4	YEAR 5		
Salaries (FTE, PTE)	\$2,091,882	\$2,144,179	\$2,197,783	\$2,252,728	\$2,309,046	\$1,942,520	36.8%
Fringe / Benefits (@ 28% of Sal.)	\$585,727	\$600,370	\$615,379	\$630,764	\$646,533	\$543,906	10.3%
Allowance for Interns & Seasonal Personnel	\$16,153	\$16,557	\$16,971	\$17,395	\$17,830	\$15,000	0.3%
Uniforms	\$5,731	\$5,874	\$6,021	\$6,171	\$6,325	\$5,400	0.1%
Professional/Contract Services	\$200,568	\$204,580	\$208,671	\$212,845	\$217,102	\$189,000	3.6%
Voice/Data/Web Presence	\$68,766	\$70,142	\$71,544	\$72,975	\$74,435	\$64,800	1.2%
Postage & Shipping	\$20,057	\$20,458	\$20,867	\$21,284	\$21,710	\$18,900	0.4%
Equipment Rental/ Lease	\$25,787	\$26,303	\$26,829	\$27,366	\$27,913	\$24,300	0.5%
Travel, Meeting and Entertainment	\$34,383	\$35,071	\$35,772	\$36,488	\$37,217	\$32,400	0.6%
Dues and Subscriptions	\$14,326	\$14,613	\$14,905	\$15,203	\$15,507	\$13,500	0.3%
Retail Cost of Goods Sold (COGS)	\$551,006	\$491,773	\$477,722	\$487,276	\$499,507	\$432,688	8.2%
Advertising	\$574,962	\$513,154	\$498,492	\$508,462	\$521,225	\$451,500	8.6%
Printing/Copying & Publications	\$82,137	\$73,308	\$71,213	\$72,637	\$74,461	\$64,500	1.2%
Educational Kits	\$57,496	\$59,379	\$61,243	\$62,468	\$64,036	\$55,470	1.1%
Events & Programs	\$169,793	\$173,189	\$176,653	\$180,186	\$183,790	\$160,000	3.0%
Changing Exhibits / Curatorial	\$169,793	\$173,189	\$176,653	\$180,186	\$183,790	\$160,000	3.0%
Exhibit Reinvestment	\$159,712	\$162,906	\$166,164	\$169,487	\$172,877	\$150,500	2.9%
Exhibit Supplies	\$21,224	\$21,649	\$22,082	\$22,523	\$22,974	\$20,000	0.4%
Exhibit Replacement	\$12,734	\$12,989	\$13,249	\$13,514	\$13,784	\$12,000	0.2%
Supplies & Materials	\$114,610	\$116,903	\$119,241	\$121,626	\$124,058	\$108,000	2.0%
Utilities	\$232,315	\$236,962	\$241,701	\$246,535	\$251,466	\$218,916	4.1%
Insurance	\$92,926	\$94,785	\$96,680	\$98,614	\$100,586	\$87,566	1.7%
Repairs & Maintenance	\$108,414	\$110,582	\$112,794	\$115,050	\$117,351	\$102,161	1.9%
Groundskeeping/Landscaping Supplies & Replacement	\$63,672	\$64,946	\$66,245	\$67,570	\$68,921	\$60,000	1.1%
Parking Maintenance	\$12,607	\$12,859	\$13,116	\$13,379	\$13,646	\$11,880	
Other Operating Expenses / Contingency	\$85,958	\$87,677	\$89,431	\$91,219	\$93,044	\$81,000	1.5%
Miscellaneous ^{1/}	\$167,182	\$83,166	\$0	\$0	\$0	\$0	0.0%
Total Operating Expenses	\$5,739,925	\$5,854,724	\$5,971,818	\$6,091,255	\$6,213,080	\$5,025,906	95.2%
Capital Reserves ^{2/}	\$286,996	\$292,736	\$298,591	\$304,563	\$310,654	\$251,295	4.8%
Total Operating Costs	\$6,026,921	\$6,147,460	\$6,270,409	\$6,395,817	\$6,523,734	\$5,277,202	100.0%

^{1/} To accommodate higher attendance levels after opening in Years 1 and 2 and unforeseen early year expenditures, the operating expenses have been increased by 3% and 1.5%, respectively, in addition to inflation.

^{2/} Capital Reserves include funds for equipment replacements and minor building repairs/improvements.

Source: ConsultEcon, Inc.

Table IX-8
Net Income Summary \$5 million Operating Budget Scenario
Desert Discovery Center

	Stabilized Attendance Levels ^{1/}	2014 YEAR 1	2015 YEAR 2	2016 STABLE YEAR 3	2017 YEAR 4	2018 YEAR 5
<i>Revenues</i>						
Operational Revenues	\$3,500,380	\$4,556,718	\$3,996,217	\$3,942,097	\$3,974,856	\$4,145,367
Non-Operational Revenues						
Operating Reserves Interest	\$178,099	\$189,000	\$192,606	\$196,282	\$200,027	\$203,844
Other Non-Operational Revenues ^{2/}	\$1,598,723	\$1,281,204	\$1,958,636	\$2,132,030	\$2,220,934	\$2,174,522
	\$5,277,202	\$6,026,921	\$6,147,460	\$6,270,409	\$6,395,817	\$6,523,734
<i>Expenses</i>						
Operating Costs	\$5,025,906	\$5,739,925	\$5,854,724	\$5,971,818	\$6,091,255	\$6,213,080
Capital Reserves	\$251,295	\$286,996	\$292,736	\$298,591	\$304,563	\$310,654
	\$5,277,202	\$6,026,921	\$6,147,460	\$6,270,409	\$6,395,817	\$6,523,734
Net Revenue	\$0	\$0	\$0	\$0	\$0	\$0

1/ Revenue and expense in current dollars.

2/ Estimates of Non-Operational Revenue Potential have been limited to the extent required. Higher amounts would be sought.

Source: ConsultEcon, Inc.

RESOLUTION NO. 8998

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SCOTTSDALE, MARICOPA COUNTY, ARIZONA, ACCEPTING THE RECOMMENDATIONS AND WORK PROGRAM OF THE DESERT DISCOVERY CENTER ("DDC") PHASE III FEASIBILITY COMMITTEE, CONTINUING THE DDC PHASE III FEASIBILITY COMMITTEE IN EXISTENCE AND AUTHORIZING A TRANSFER OF UP TO \$60,000 FROM THE NON-DESTINATION MARKETING PORTION OF BED TAX TO THE DESERT DISCOVERY CENTER CIP PROJECT

WHEREAS, on December 13, 2010, the City Council adopted Resolution No. 8540 establishing the Desert Discovery Center ("DDC") Phase III Feasibility Committee and subsequently selected five committee members; and

WHEREAS, the DDC Phase III Feasibility Committee met 17 times between May 2011 and February 2012 and produced a set of recommendations and a work program in support of the Desert Discovery Center Project; and

NOW, THEREFORE, LET IT BE RESOLVED, by the City Council of the City of Scottsdale, Maricopa County, Arizona, as follows:

Section 1. The City Council accepts and approves the Desert Discovery Center Phase III Feasibility Committee recommendations and work program.

Section 2. The City Council authorizes the transfer of an amount not to exceed \$60,000 from the non-destination marketing portion of bed tax revenues to the capital improvement program and authorizes a capital contingency transfer to the CIP Project titled Desert Discovery Center Phase III.

Section 3. Continue the existence of the Desert Discovery Center Phase III Feasibility Committee until the operator for the Desert Discovery Center is selected, after which it shall dissolve without further action unless otherwise directed by the City Council.

PASSED AND ADOPTED by the Council of the City of Scottsdale, Maricopa County, Arizona, this ____ day of _____, 2012.

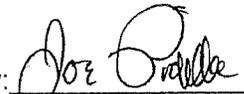
ATTEST:

CITY OF SCOTTSDALE, an Arizona municipal corporation

By: _____
Carolyn Jagger
City Clerk

By: _____
W. J. "Jim" Lane
Mayor

APPROVED AS TO FORM:
OFFICE OF THE CITY ATTORNEY

By:  _____
Bruce Washburn, City Attorney
By: Joe Padilla, Senior Assistant City Attorney