Phase 1 Analysis of the Fort Worden Public Development Authority Plan

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This analysis is being provided as a review of the current "Fort Worden State Park Business and Management Plan" Working Draft dated 8/23/12 to provide some insights into concerns that would be raised in the formal peer review of the finalized document. It should be noted that the scope of this work specifically is addressing the reasonableness of the PDA's plan, not to evaluate various other options for the Park Commission.

The analysis is based on the following activities:

a) Review of the "Fort Worden State Park Business and Management Plan" Working Draft dated 8/23/12
b) Attending a portion of the Public Development Authority meeting on August 28, 2012
c) A tour of the Fort Worden facility on August 28, 2012

This document is specifically addressing the Plan for the 100 acres that includes the current Fort Warden facilities that are used for the Lifelong Learning Center, Conferences, Conference Housing, Vacation Housing and miscellaneous events and performances. This 100 acres are identified on page 27 of the Plan and will be referred to as the "Campus" throughout this document.

Opportunities:

The Fort Warden facilities and site offer some tremendous opportunities for increased use by the statewide and local residents with associated increased revenues and profits. There are some clear advantages to the transfer of management to the Fort Warden Public Development Authority (PDA) to manage the Campus facilities at Fort Warden including:

a) The PDA will have a focused mission for the welfare and growth of the Fort Worden Campus area as it provides tremendous opportunities for growth of tourism and community involvement for the city of Port Townsend which created and oversees the Public Development Authority.
b) A smaller and more nimble organization such as the PDA can usually respond more quickly to the needs of visitor/customers, potential visitor/customer inquiries and employee needs through local and focused management, gaining opportunities to increase visitors, revenues and profits.
c) The Board of Directors of the PDA has several qualified and experienced people with hospitality industry experience that can help direct the Fort Worden Lifelong Learning Center, Conference Center spaces and housing to utilize best practices in the hospitality and conference industry.
d) The Plan document has very modest revenue growth projections based on a comparison of revenues presented at the 8/28 meeting, which should be easily achieved with a marketing budget and a customer service focus. Years 2-10 in the plan have a very modest 3% growth rate which should be easily achievable, especially if the capital investments of $85M will be made to change and upgrade the facilities to attract a broader range of visitors, conferences and housing stays (true hotel rooms as well as multi-bedroom homes and dorm style housing). See below regarding clarity of financial projections.
e) The partnership with the State Parks office at Fort Warden can provide some economies of scale in managing the 434 total acres of the park which includes the 100 acres of the Campus. Increased campground visitors, increased park exposure to new visitors and the associated visitor fees can also be a benefit to the State Park.

Risks and Clarifications Needed:

With the above opportunities in mind, here are some specific concerns on the Working Draft document:

a) Financial Comparison to Current Operations: in order to determine the reasonableness of the PDA plan for the campus, we need to understand current financials as it is operated by the State Parks. While there is a known difficulty in separating some costs at the overall Park to show what is spent on just the Campus, there should be a reasonable approximation of the current revenues and major expenses so that the Plan can be tested for reasonableness over current operations. We should also understand what capital expenditures are being made over the past several years (not including new buildings) – see item b below.

b) Clarity of Financial Projections: It needs to be made clearer that the pro-forma income statements include no increases or improvements in the facilities such as those that are identified in the Capital plan starting on page 38 (this is a small note at the bottom of page 31). Therefore there should be two sets of projections in two areas (operating income and capital budget) to cover the two scenarios:
    1. As –is: The document needs to show the capital projects that will be needed to sustain the Net Income Projections in the plan (e.g. that match the projections on page 31). The notes at the bottom of this page say that 60% of Net Revenues from Operations will be used as a building reserve fund (capital expenditures). Over the 10

years this is only 60% of the approximately $1 million projection of Net Revenue – is $600,000 enough to cover the needed capital replacements for a campus of this size (443,821 square feet per page 29)? Are there any capital requirements needed to "improve the safe and appropriate uses of existing facilities" as the first criteria for capital projects (page 38)? What are the current levels of expenditures on various capital replacements under the Parks management?

2. Major Capital Expenditures: A second set of pro-forma income statements should eventually be built to show the potential revenues and net income with the $85Million in capital expenditures. With these capital expenditures we would expect revenues to rise significantly with higher rates or higher occupancy and new events, conferences and vacation housing being rented out that are currently vacant or severely underutilized. This analysis could be done in the future as it will require additional work regarding market demand for additional facilities and housing; a pricing analysis of what rates can be charged for upgraded facilities, and a cost/benefit analysis of the investments.

At a minimum, it needs to be clearly stated what baseline capital requirements will be needed each year to continue to operate the Campus facilities on an "as-is" basis since the Financial Projections are based on "as is". It also needs to be clearly identified who will be responsible for funding these needs, and what commitment is being made by the PDA to cover these needs.

c) Capital Investment Commitments: Following the discussion above about the need for an "as-is" capital improvement projection, the other key question is what happens if the PDA is unable to generate the surplus of Net Revenues or raise funds from outside sources to maintain the facilities in the agreed upon condition (either in at least current condition or some other defined basis)?

d) Responsibility for Operating Losses: In addition to the questions regarding responsibilities for capital maintenance and improvements, the other issue is whether the PDA or other entities are prepared to absorb operating losses for this project and be clear about where those funds will come from if it does occur. The Parks and Recreation Commission also need to be aware of how any outstanding commitments would be handled if the project were returned to them for financial performance reasons (to employees, service providers and capital project contractors).

e) Replacement vs. Restoration Costs: While there needs to be recognition to preserve the historic nature of Fort Worden and its facilities, in reviewing the Capital Projects list there are many areas where the restoration costs significantly exceed the replacement costs. There should be a dialog with the appropriate stakeholders about how the various objectives of historic preservation and reasonable financial performance can be optimized. A consideration is that for every extra dollar spent above other alternatives those are dollars that are not being used to preserve another building or give back to support and grow the partner organizations and their programs for the community.

f) Updated Facilities Information in the Plan Document: In looking at some on line materials from Hotel Planner (http://www.hotelplanner.com/Event-Meeting-Space/119473/Fort-Worden-Conference-Center-Port-Townsend) - a lot of the facilities are described as "recently and wonderfully updated". The chart on page 28 should also reflect the most recent renovation date and current condition.

g) Future of Partner Organizations: As identified in the plan there are many partner organizations currently on the site and the plan needs to better address the impact on these organizations in terms of any potential changes in their occupancy, financial costs or upside opportunities with the new management and intended changes to operations. A separate statement regarding these organizations should be generated if the Major Capital Expenditures Plan would impact an organization in a negative manner.

h) Clarity of Responsibilities: The plan needs to better define the management, fiscal and operational responsibilities between the PDA and the State Park for the Campus. Of the 30 services identified as being provided within the Campus (page 30), 13 of them or 43% are identified as "joint or shared" including key financial and customer impacting areas such as marketing and sales, facility and infrastructure maintenance, site and grounds maintenance, etc. There needs to be a more specific definition of the role of the two organizations in managing each of these functions including decision making, quality and fiscal responsibility. For example a specific facility may not have adequate maintenance being done on heating systems making the space too cold for the enjoyment of the guests paying for the space (and

therefore impacts customer satisfaction and referrals and therefore future revenues). In this example it needs to be clear who will approve and pay for the repair or maintenance to ensure the quality of the experience for the guests.

It would also be helpful to see a column added to the chart of the Services (those listed on page 20 of the Plan), showing who is performing the service today (Commission or Partner/private) so we can understand how much is actually changing hands from Commission or existing private partners to the PDA.

i) Performance Expectations: In addition to the capital budgeting and maintenance of current conditions issues raised above, there should be some other performances expectations identified that are important to the various stakeholders. These should be bi-lateral agreements on performance levels from both the State Parks to the PDA/Campus and the PDA/Campus to the State Parks. These could include expectations or measurements such as financials, service levels, quality, customer satisfaction, safety, employee morale and community engagement and investment. There should also be a clear understanding of the processes that would be followed when certain expectations are not met, and what happens to cure performance deficiencies, and in the end if performance was not corrected adequately, what would cause the State Park to revoke the management agreement with the PDA.

j) Leadership and Marketing Qualifications: It is unclear that the organizational staffing will have adequate leadership in place to both manage the day-to-day operations while also managing all of the transition activities and leading the aggressive marketing and customer service improvement initiatives. The Manager position identified on page 36 with a salary of $76,500 may not come with the requisite senior leadership and marketing skills to lead this organization, especially if the aggressive capital campaign and fund raising activities are to be pursued. While the PDA Board has many experts in these areas, a key question will be how much time and effort they can dedicate to this effort.

k) Marketing Plan: Pending a better understanding of the current financials and revenues (item a above) there will need to be a stronger marketing plan developed and integrated based on the growth projections. This should include a marketing plan based on the "as-is" scenario that identifies target visitor/customer groups in rank order of priority and size and the identification of the marketing mix to meet these target visitor/customer needs (Service offerings, Pricing and Promotional messages and media selection). A separate marketing planning process will need to be undertaken to ensure that if the $85M (or portion of it) is spent to renovate and change the campus, since this may change the target customers and may change the marketing mix. Some market research should be done to assure that when money is spent to upgrade facilities that target visitors/customers will be willing to pay higher rates for the nicer facilities or that occupancy levels will significantly increase.

l) Reasonableness of Financial Assumptions: In addition to the above discussion about understanding the current revenues and expenses, another issue is that the assumptions for the Income projections may be low in some areas:

1) There are no start up expenses shown in the first year – for hiring and training new people, transition activities, managing the transition, new systems, process improvements, promotional advertising (above the normal annual advertising), etc.
2) During the first year there also is probably a delay (ramp up) in monthly revenue increases as the word gets out about the facility changes, the marketing awareness campaign is engaged and people make plans to visit Fort Worden instead of other conference, vacation or events venues.
3) A key area of revenue growth includes alcohol sales ($168,000 per year on page 37). This number needs to be better validated or explained about how it compares to similar environments, sites and guests. The costs to get alcohol sales up and running also need to be included in the start-up cost estimates (bar equipment and furnishings, inventory, glassware, etc.)
4) There does not appear to be an annual rise in salary/wages – CPI increases, merit increases and time and title increases.
5) The employee benefits cost increases of 2.5% seems very low given the expected rises in healthcare costs (page 31) in most forecasts.
6) The other assumption that appears low is $10,000 in 401K contributions on a payroll of $567,400 (page 36), which is only 2%?
7) In addition to net income projections, a Cash Flow analysis should be done to identify the needs for working capital and capital investments in addition to the operational aspects of the Campus.

m) Impact of Changes to Discover Pass Revenues: Page 22 of the plan suggests that the exemptions to the $10 Discover Pass fee be widened to include additional classifications of visitors to the park that are using Campus facilities or with partner organizations. There should be a calculation about how this will impact the State Park revenues on the Discover Pass.

Impacts to the State Park: The Fort Warden PDA Business and Management Plan does not address, by agreement, the impacts to the State Parks and Recreation Commission and specifically to the Fort Worden State Park. Some things the Park should consider from their perspective could be:

a. The impact to the Park's net annual costs by transferring this management to the PDA. It is expected that the park will have a net cost avoidance with the PDA assuming these duties and associated costs, but the magnitude should be estimated.
b. What happens to state employees currently performing some of the functions to be taken over by the PDA (some mention of layoffs – does the Commission then need to pay severance or transfer costs for these employees and if so, these costs need to be identified).
c. Will there be a loss of any economies of scale with this segmentation of responsibilities and how will those be managed going forward (such things as administrative support for rangers and staff, IT support and infrastructure, meeting rooms and office spaces, etc.).
d. The park staff should brainstorm what other negative impacts can occur for the Commission?

Format issues:

1) Facilities should use consistent references – e.g. on pages 28-29 there are 3 digit numeric building numbers, in pages 32 to 34 there are 5-6 digit alpha numeric "Unit Numbers". This makes it difficult to follow the spaces through the document
2) Annual numbers should be in the same format – January to December or July to June (Appendix)
3) Overall the plan is somewhat repetitive in some areas.
4) Appendix B needs to be updated with data since 2007
5) Note that the numbers in the Combined Capital Plan (page 45) does not match the individual worksheets on pages 41-44. E.g. page 41 (Learning Center) of the plan shows $32M Replacement costs and $43M renovation estimate while page 45 shows $65M replacement costs and $43M renovation costs; page 42 (Housing) shows money being spent on housing in year 2 and 3 while page 45 no money being spent until year 4.