

**INTERIM REPORT  
ANALYSIS OF HOTEL QUEEN MARY**

**PREPARED FOR THE  
PORT OF LONG BEACH  
AND  
CITY OF LONG BEACH**

**JUNE 1992**

**ERA PROJECT NO. 10518**

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## GENERAL LIMITING CONDITIONS

Every reasonable effort has been made to ensure that the data contained in this study reflect the most accurate and timely information possible, and they are believed to be reliable. This study is based on estimates, assumptions and other information developed by Economics Research Associates from its independent research effort, general knowledge of the industry and consultations with the client and the client's representatives. No responsibility is assumed for inaccuracies in reporting by the client, the client's agent and representatives or any other data source used in preparing or presenting this study.

This report is based on information that was current as of June 1992 and Economics Research Associates has not undertaken any update of its research effort since such date.

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This study is qualified in its entirety by, and should be considered in light of, these limitations, conditions and considerations.

## INTRODUCTION

The Queen Mary/Spruce Goose complex is presently being operated by the Walt Disney Company. Their current lease with the City of Long Beach through its Board of Harbor Commissioners expires as of September 30, 1992. Disney has expressed their desire to discontinue operation of the complex at the termination of their contract, but has offered to remain in an operating capacity for a three-month period beginning October 1, 1992, and ending December 31, 1992.

Economics Research Associates (ERA) has been retained by the Port and City of Long Beach to examine the economic feasibility and impacts of potential uses for the complex and to recommend an appropriate strategy for the Queen Mary complex and surrounding property. As an initial step in the process, ERA was asked to analyze Disney's projections for the hotel operations and to recommend whether the Hotel Queen Mary should remain open for a three-month period from October 1992 to January 1993 or whether the hotel should be closed at the termination of Disney's lease on September 30, 1992. It is our understanding that the Port and City's current desire is to continue the Queen Mary tour for the short term following Disney's departure.

This report represents an interim work product which specifically addresses the issue of whether the Port of Long Beach should have Disney operate the Hotel Queen Mary (and tour) for the three-month extension from October to January 1993 or whether the hotel should be closed. ERA was assisted in this analysis by Kotin, Regan, & Mouchly, and Rados International.

In performing our evaluation, ERA analyzed Disney's projections for the hotel operations and evaluated the costs and revenues associated with operation of the hotel and the effects of closing the hotel on the attraction and City tax revenues. In addition, we analyzed the impact on entrance and parking fees and visitor attendance in the event the hotel is closed.

Our analysis and recommendations are based on a review of confidential documents supplied by Disney. The level of detail did not allow us to precisely determine the performance of the hotel as undistributed expenses were not segregated and, therefore, many of our judgments are based on our experience and on industry standards. It should be emphasized that our analysis was based on the data made available to us. This analysis is subject to refinement based upon further analysis.

In addition to reviewing Disney's financial statements, we have reviewed historical and recent hotel industry market trends including occupancy levels and average daily rates. We have also taken into consideration the possible negative impacts on tourism to the greater Los Angeles region, and its impacts on convention business and hotel occupancies in the short term caused by the recent civil disturbance in Los Angeles.

### SITE AND FACILITIES

The Queen Mary is located on Pier J within the Queensway Bay Planning District of the Port of Long Beach.

The hotel's 365 rooms are located on three decks of the ship, the Main, A and B Decks and primarily within the first-class area. Some cabins in the first-class area were enlarged by combining two adjoining rooms, while rooms in the former second-class areas were created by combining two to three original cabins.

The rooms are smaller than typical hotel rooms and are in a variety of configurations. The small rooms contain approximately 200 square feet and the larger ones are about 315 square feet. There are also five suites. Standard hotel rooms contain approximately 350 to 400 square feet.

Amenities include the Sun Deck exercise room which is only for hotel guests; and three restaurants, Sir Winston's, an upscale full-service restaurant, The Chelsea and the more casual Promenade Cafe. Hotel guests currently pay reduced admission charges (half off the adult price) for the Queen Mary/Spruce Goose tours.

## **HOTEL ECONOMIC PERFORMANCE AND IMPACT**

### **Operating Performance**

ERA reviewed the operating performance of the Hotel Queen Mary under Wrather's management and under Disney's management. Two standard measures of performance were reviewed: annual occupancy levels and achieved room rates.

The Hotel Queen Mary's historical occupancies are presented in Table A-1. The Wrather Company operated the hotel from 1981 to 1988 at which time Disney acquired the lease. During the Wrather years, the hotel attained its peak occupancy level of 76 percent in 1985 and 1986. The annual occupancy level has declined since 1987 and reached a low of 60 percent in 1991. While occupancy levels have also declined in the Long Beach hotel market, the Hotel Queen Mary has performed below the local competitive market over the past three years, 1989, 1990 and 1991. It was 8 percentage points below the local market in 1991, with an annual occupancy level of 60 percent compared to 68 percent in the local market.

The average daily rate has increased approximately 5 percent annually (compounded growth rate) since 1982. In 1991 the average daily rate was \$88, slightly higher than that in the competitive local market which was \$87. (See Table A-2.)

### **Hotel Room Revenues**

Hotel room revenue peaked in 1986 at \$8.1 million and since then has declined to a level of about \$7 million. There has been no growth in room revenues since 1986, with actual average annual declines of about 3 percent a year since that time.

### **Fiscal Benefits**

The city benefits from the Hotel Queen Mary in terms of transient occupancy receipts. The City collects a tax of 10 percent on occupied lodging rooms in the city. The current lodging tax is 10 percent, out of which 6 percent is allocated to the Convention and

Visitors Bureau and 4 percent to the City's General Fund. Over the last three years, the City has collected an average of approximately \$700,000 per year in transient occupancy tax from the Hotel Queen Mary. This represents about 10 percent of total transient occupancy tax receipts, as indicated in Table A-3.

In addition to the transient occupancy tax, the City receives a portion of the sales tax collected for food and beverage and merchandise purchases at the attraction which has averaged \$215,000 since 1986.

### AVAILABLE MARKETS

The Hotel Queen Mary and Queen Mary/Spruce Goose attraction draws from large tourist and resident market bases.

#### Resident Market Segment

The complex is located within a dense resident market which includes approximately 12 million persons living within the Greater Los Angeles and Orange County area. The propensity to visit a recreational attraction is heavily influenced by driving time and distance. This is especially true for areas such as the Los Angeles metro area which has a wide variety of recreational and cultural opportunities and weekend getaway destinations, and a high-density urban environment with heavy traffic and long travel times.

#### Visitor Market Segment

Over the last two years Long Beach has attracted an average of approximately 1.9 million overnight visitors per year, comprised of 744,000 hotel/motel visitors and 1.2 million visitors staying with friends and relatives. The Long Beach visitor market is a subset of the Los Angeles region's visitor market which receives a total of approximately 25 million overnight visitors a year.



Included within the hotel/motel visitors are over 300,000 convention delegates. The Long Beach Convention and Visitors Council (LBCVC) is responsible for convention sales bookings which include blocks of hotel rooms. Hotel roomnights booked by the LBCVC increased from just over one thousand in 1982 to 132,000 in 1992.

### HOTEL INDUSTRY TRENDS AND COMPETITIVE ENVIRONMENT

The local competitive hotel market has an inventory of 2,512 rooms. There are a total of 4,700 hotel rooms in 17 properties containing 100 or more rooms in Long Beach. (See Table A-4.) Not all of these are considered to be directly competitive to the Hotel Queen Mary in terms of quality, orientation or location. Occupancy rates have been declining in recent years (see Table A-1) and were 68 percent during 1991 as estimated by Pannell Kerr Forster. Pannell Kerr Forster forecasts that occupancies will drop to slightly under 62 percent in 1992. It should be noted, however, that this forecast was prepared before the civil disturbances in Los Angeles.

The poor performance of the Long Beach hotel market reflects business cutbacks, flat demand and oversupply. Long Beach has been impacted by cutbacks and concerns over the financial health of McDonnell Douglas and by United Airlines leaving Long Beach Airport. In addition, the 393-room Long Beach Hilton at the World Trade Center opened in January 1992 and added 393 rooms to the hotel inventory. Demand has been weak in the Long Beach market and overall in the Los Angeles regional market due to the recession which has led to a decline in both the group meetings travel market segment and in pleasure travel.

#### Impact of Civil Disturbance

Adding to the already ailing hotel market in the Greater Los Angeles Region is the negative impact arising from the civil disturbance which occurred in late April and early May. These events were widely publicized in the media and are expected to have both short and longer term impacts on the level of tourism to the region. Clearly, the effects are already

being felt among the visitor industry, with the hotel segment among those to feel the impacts first. In a recent study for the Los Angeles Visitors and Convention Bureau, ERA projected that hotel occupancies would be significantly impacted.

ERA's analysis indicated that international tourism will be most heavily affected, with declines of about 30 percent during the summer. Over the longer term, international tourism is projected to be 15 percent off. While domestic tourism (which includes business travel) is forecasted to decrease less severely, it is expect to decline at least 15 percent during the summer and 5 to 10 percent over the long term. These declines in the level of tourism are forecasted to lead to declines in hotel occupancy rates of approximately 12 percentage points during the summer and 5 percent in the longer term for the overall Los Angeles region. The actual drops in occupancies will, of course, vary depending on the business mix of the particular hotel property.

## REVIEW OF DISNEY FINANCIALS

ERA's analysis of the Queen Mary/Spruce Goose complex performance was in large measure based on a review of confidential financial information supplied by Disney. We have attempted below to explain our reasoning as clearly as possible without revealing confidential information.

### Past Performance

In terms of the overall financial picture for the entire complex, most of Disney's financial figures appear to be consistent with attraction and hospitality industry standards. There are several exceptions, which we feel primarily reflect the high quality standards inherent in Disney's operations and marketing of attractions. These include fairly high costs experienced in four expense categories: marketing, entertainment, general and administrative costs, and cost of goods for merchandise. Marketing costs were about \$5 million or approximately 12 percent of percent of gross revenues in 1991, compared to the more typical 6 to 9 percent in the theme park industry and 5 to 7 percent in the hospitality industry.

Entertainment expenses were approximately \$4 million. It appears that Disney made a strong effort to bring the complex up to Disney's high standards and to also increase attendance. However, the increase in marketing and entertainment costs did not positively impact attendance. Given Disney's successful history of attraction marketing, this is an indication of the fundamental product and market difficulties of the Queen Mary/Spruce Goose complex. (These include low repeatability, passive entertainment, and an intensely competitive attractions market.) It should be noted, however, that while Disney provided financial support it did not promote the Queen Mary/Spruce Goose complex as a Disney attraction. Clearly, there is significant value attached to the Disney name, but this value was largely unrealized in the case of the Queen Mary/Spruce Goose since the attraction was not promoted with the Disney name.

The third area of high expenses was in allocated corporate general and administrative costs. When combined with site-related general and administrative costs, these costs totaled slightly over \$4 million or nearly 10 percent of gross revenues. While this is somewhat high by attraction industry standards, there is a clear value to the Disney name, management and product. The allocated corporate overhead of some \$2.5 million in 1991 is the price for this value. Unfortunately, as mentioned above, the Queen Mary/Spruce Goose complex did not benefit from being designated and marketed as a "Disney attraction."

Finally, merchandise cost of goods equated to 62 percent of gross revenues, a very high number, compared to the attraction industry standards of 45 to 50 percent. This may be due to the fact that the complex sells both high cost of goods sold specialty items and lower cost of goods sold attraction industry merchandise.

Disney provided ERA with operating statements for the hotel and other business units on a confidential basis. However, these statements did not distribute about half of the complex's operating expenses by business unit. These undistributed expenses (which include fixed charges and allocated expenses) totalled to \$21 million out of \$43 million in operating expenses. It was difficult, therefore, to ascertain how efficiently the hotel is being operated. ERA attempted to distribute these expenses using our engineering analysis for several cost

categories (primarily maintenance and utilities) and what we felt were reasonable assumptions to allocate the other expenses to the hotel operation. Based on our analysis, it does appear that the expenses associated with the hotel may be somewhat high compared to hospitality industry standards. This is due in part to higher than normal maintenance costs associated with the hotel being on a ship, and high corporate overhead and marketing. While hotel business decreased by about 4 percent in the last fiscal year, operating expenses increased by about 11 percent.

### Projected Disney Performance

ERA examined Disney's proposed three-month operating extension scenario. In general, ERA is in agreement with the majority of Disney's projections, although we have made some adjustment to certain categories.

Disney projected operating performance under varying hotel occupancy levels ranging from 50 percent to 65 percent. These projections were prepared prior to the Los Angeles riots. Quarterly attendance was estimated to range from 164,000 to 204,000 based on the same period in the prior year, but was not adjusted to reflect the Spruce Goose leaving, although the Spruce Goose's departure was reflected in the per capita.

### ERA'S ESTIMATES OF PERFORMANCE

#### Hotel Queen Mary

ERA expects that the Hotel Queen Mary will attain occupancies on the order of 50 percent during the last quarter of 1992.

This is based on a number of factors, some of which relate to the overall hotel industry and some to the Hotel Queen Mary itself. The hotel industry in Southern California has been performing poorly in terms of occupancies in the last few years due to the economic recession and excess inventory in many areas. This rather dismal situation has been exacerbated by the recent riots. The Hotel Queen Mary has been performing poorly and

while there might be some upside expected with the last chance to stay on the Queen Mary, this will be largely offset by the fact that for most hotels convention and meetings business is a significant portion of their business during the fall months and groups are not being booked for October, November and December since Disney expects to leave.

Our estimates for the Hotel Queen Mary's performance are shown below:

Available Roomnights	133,200
Estimated Occupancy	50%
Occupied Rooms	66,600
Average Room Rate	\$82.00
Estimated Room Revenue	\$5.5 million
4th Quarter Revenue (x .21) <sup>1</sup>	\$1.1 million

We would expect the Hotel Queen Mary to achieve these levels of performance given diligent management and marketing. However, it should be pointed out that there is a downside risk associated with operating the hotel in a precarious market.

### Attraction

#### Pricing

Prices at commercial attractions are a function of several factors including the entertainment value of the attraction which can be measured in most cases by average length of stay, uniqueness and appeal of the attraction's concept, repeatability of the attraction, competition, and characteristics of the available market.

Adult admission for the Queen Mary/Spruce Goose is currently \$17.95. This is extremely high compared to other commercial attractions with similar lengths of stay. With the departure of the Spruce Goose, it will be necessary to lower the admission price since a portion of the overall attraction's content will no longer be there, and in order to bring the price more in line with other attractions with a similar length of stay.

<sup>1</sup>Based on average historical fourth quarter revenues as a percent of total.

In arriving at the suggested admission price, ERA reviewed prices that are being charged at various types of attractions within Southern California, including theme parks, water parks, family entertainment centers, museums and others. We reviewed adult admission prices compared to the average length of stay, as shown in Table A-5. As indicated, for shorter length of stay facilities (it is estimated that the length of stay at the Queen Mary complex without the Spruce Goose will be about 2.0 hours) adult admission price can range usually from about \$4 to \$7 per hour. This would indicate a price range of roughly \$8 to \$14.

If one considers what the admission price structure would have been for the Queen Mary without the Spruce Goose using historical single-attraction admissions (1981 adult admission to the Queen Mary was \$6.00, as shown in Table A-6) and applied the industry standard average annual price increase of about 5 to 6 percent, then admission would be on the order of \$10 to \$11. Taking into account these factors and the attraction price/value relationship, we recommend lowering the adult admission price to \$10.95.

#### Attraction Attendance

Attendance peaked in 1984 at 1.6 million, a reflection of the first full year with the Spruce Goose on site. Since 1984 attendance has been eroding. (The only year which has registered an attendance gain was 1989 which showed a 1 percent increase over the previous year.) Attendance in 1991 was 808,000, an 8 percent decline from 1990, as indicated in Table A-7.

ERA believes that the tourist segment will be off this summer and fall in response to the Los Angeles riots. We have thus estimated a 10 percent decline in tourist-generated business at the attraction. However, resident market attendance should remain stable with the recession waning, and lower admission prices making the attraction more affordable for the family. (We do not anticipate price resistance at the lowered price.) Additionally, while the Spruce Goose leaving will tend to lower attendance, we have assumed this will be offset by lower admission prices, last chance visitors, and a lag in market awareness and reaction

to the Spruce Goose departing. We also recommend that Londontown be opened with no gate. ERA estimates that attendance will reach 760,000 during 1992, which equates to a 6 percent decline from 1991, with 160,000 in attendance being generated during the last quarter.

### Parking Fees

ERA recommends that the parking fee be lowered from its present level of \$5.00 to \$2.50. The current fee is higher than that of the majority of Southern California attractions, and is the same as those with a much longer length of stay such as theme parks. Major theme parks, such as Disneyland, Universal Studios and Magic Mountain, which have an average length of stay of up to 8 hours, charge \$5 for parking.

### Maintenance Cost

Our engineering consultant (Rados International) estimates that there will be an approximate maintenance cost savings of some \$2.0 million annually with the closure of the hotel. This consists of approximately \$1.0 million in labor savings, and a rough estimate of \$1.0 million in materials and equipment cost. (Disney's figures do not break out maintenance labor and materials. Materials estimates are based on rough estimates of labor to materials cost ratios based on known staffing and labor rate levels, compared to total maintenance costs.) A more detailed estimate of maintenance cost will be provided in our final report.

### Financial Projections

Based on the above, ERA has projected operating economics for the Queen Mary/Spruce Goose with the hotel and without the hotel. These projections are shown in Tables A-8 through A-10 and discussed in the next section on a summary level.

We have adjusted the financials in the areas which have been discussed above. These include:

- Attendance
- Hotel occupancy
- Admission pricing
- Parking fee
- Lost food and beverage expenditures due to hotel closure
- Merchandise cost of goods
- Marketing expense
- Entertainment expense
- Corporate general and administrative expense

More detailed assumptions are provided in the Appendix.

### **CONCLUSIONS AND RECOMMENDATIONS**

Based on the above analysis, and further assumptions shown in the Appendix, ERA has evaluated the economic implications of several operating strategies for the Queen Mary hotel and tour for the fall of 1992. These include:

- Disney operates the hotel and tour
- Disney operates the tour, the hotel is closed
- A new operator operates the hotel and tour
- A new operator operates the tour, the hotel is closed
- The complex is shut down

It should be noted that our projections are a result of our analysis to date and are subject to refinement. We do feel confident, however, that the order of magnitude economics of the various operating strategies are correct and applicable for decision-making purposes.

Table 1 outlines the various options available to the Port and City of Long Beach. These options are presented in terms of their costs to the Port and City, benefits to the Port and City, net loss or gain, and other pertinent qualitative factors. It should be mentioned that



Table 1

SUMMARY OF INTERIM STRATEGIES  
October through December 1992

Option	Costs	Benefits	Net Loss/Gain (000)	Other
<b><u>Disney Stays</u></b>				
1. Operates Hotel and Tour	<ul style="list-style-type: none"> <li>\$3 million operating loss</li> </ul>	<p>Retain:</p> <ul style="list-style-type: none"> <li>Transient occupancy tax receipts (\$160,000)</li> <li>Property tax receipts (\$90,000)</li> <li>Sales tax receipts (\$50,000)</li> <li>985 jobs</li> </ul>	(\$2.7)	<ul style="list-style-type: none"> <li>Use of experienced operator</li> <li>Downside risks associated with poor hotel market, impact of riots</li> </ul>
2. Close Hotel/ Retain Tour	<ul style="list-style-type: none"> <li>\$1.5 million operating loss</li> <li>Loss of 440 jobs</li> <li>Lose transient occupancy tax receipts (\$160,000)</li> <li>Lose sales tax receipts (\$9,000)</li> </ul>	<p>Retain:</p> <ul style="list-style-type: none"> <li>Property tax (\$90,000)</li> </ul>	(\$1.6)	<ul style="list-style-type: none"> <li>Use of experienced operator</li> <li>Lose hotel risks</li> </ul>
<b><u>Disney Leaves</u></b>				
3. New Operator Hotel and Tour	<ul style="list-style-type: none"> <li>\$2.8 million operating loss</li> </ul>	<p>Retain:</p> <ul style="list-style-type: none"> <li>Transient occupancy tax receipts (\$160,000)</li> <li>Property tax receipts (\$90,000)</li> <li>Sales tax receipts (\$37,000)</li> <li>985 jobs</li> </ul>	(\$2.5)	<ul style="list-style-type: none"> <li>New operator may require a longer term contract</li> <li>Would constrain alternative short-term operating strategies</li> <li>Potential losses much higher (1 year vs 1 quarter)</li> <li>Downside risks associated with new operator</li> <li>Downside risks associated with poor hotel market, impact of riots</li> <li>Start-up costs</li> <li>Possible capital expenditure required</li> </ul>

Table 1

SUMMARY OF INTERIM STRATEGIES  
October through December 1992

Option	Costs	Benefits	Net Loss/Gain (000)	Other
<u>Disney Leaves (contd.)</u>				
4. New Operator— Close Hotel Retain Tour	<ul style="list-style-type: none"> <li>• \$2.2 million operating loss</li> <li>• Loss of 440 jobs</li> <li>• Lose transient occupancy tax receipts (\$160,000)</li> <li>• Lose sales tax receipts (\$9,000)</li> </ul>	<p>Retain:</p> <ul style="list-style-type: none"> <li>• Property tax (\$90,000)</li> </ul>	(\$2.3)	<ul style="list-style-type: none"> <li>• Same new operator risks</li> <li>• Lose downside risk associated with poor hotel market, soft demand, riot impacts</li> <li>• Easier to find operator</li> </ul>
5. Lock Ship/ Complex Up and Maintain	<ul style="list-style-type: none"> <li>• Maintenance costs (\$350,000/quarter)</li> <li>• Lose fiscal benefits—               <ul style="list-style-type: none"> <li>- Transient occupancy tax receipts (\$160,000)</li> <li>- Sales tax (\$50,000)</li> <li>- Property tax (\$90,000)</li> <li>- Lose 985 jobs</li> </ul> </li> </ul>		(\$0.7)	<ul style="list-style-type: none"> <li>• Lose operating and financial risks</li> </ul>

Note: There will be some minor decrease in employment under all options due to Spruce Goose closing.

Source: Economics Research Associates.

we have not discussed lease income under any of the options, as lease terms are subject to negotiation, cannot be effectively segregated by business unit, and the varying scenarios do not imply any intrinsic differences in the lease terms. Additionally, we have not analyzed workmen's compensation liability stemming from any of the options.

### Option 1

Under the base case scenario, the Port would accept the terms of Disney's offer to operate the Queen Mary tour and hotel and associated food and beverage and merchandise facilities during the three-month extension period and reimburse Disney for any operating losses.

The potential cost to the Port is \$3 million which Disney has projected as its estimated operating loss. The Port would continue to receive transient occupancy tax receipts, sales tax receipts and property tax receipts, as shown in the table. The majority of the 985 jobs associated with the attraction, hotel, restaurants and merchandise outlets would be retained. (A few jobs would be lost under all of these scenarios due to the Spruce Goose leaving.) The estimated net loss to the Port would be approximately \$2.7 million over the three-month period.

### Option 2

A second option would be to close the hotel, but retain Disney to operate the tour over the three-month period. As shown, Disney has projected operating losses to be roughly halved. The City would still receive some sales tax income from the food and merchandise outlets and property tax. It would, however, lose the transient occupancy tax receipts, as well as approximately 440 jobs. Under this option, we estimate a net loss of \$1.6 million.

### Option 3

Under this scenario, Disney would cease operating the attraction and hotel at the end of its lease and a new operator would be retained. ERA estimates that an approximately \$2.8

million operating loss would be incurred. Benefits would include retention of the transient occupancy tax receipts, sales tax receipts and property tax income, plus all of the jobs. ERA estimates that this would result in a net loss of about \$2.5 million over the three months.

While on the surface this option appears to be a lower cost alternative to Disney's operating the complex, the potential losses could be much higher. It is highly unlikely that the Port could find someone to operate the complex for only a three-month period. A new operator would most likely require a longer term contract. This would constrain the Port's ability to exercise alternative short-term operating strategies and open up the possibility of sustaining losses over an extended period of time. There are other downside risks associated with a new operator. These include lack of experience with the facility compared to Disney, start-up costs, and possible capital expenditures required over a longer term lease. There are also risks associated with continuing operations of the hotel in a poor hotel market and the risks of the ongoing tourist market impact of the Los Angeles riots.

#### Option 4

A second option under a new operator would be to close the hotel and retain the tour. ERA has estimated that operating losses could be reduced to about \$2.2 million if the hotel were closed. The City would lose the transient occupancy tax receipts and sales tax receipts and 440 jobs. It would still receive property tax income. The net loss under this option is estimated to be roughly \$2.3 million. As with the former option, the City and Port would face the risks associated with a new operator. The risk, however, would be reduced by eliminating the risks associated with hotel operations in a poor hotel market. Additionally, it may be easier to find an operator for just the tour.

It should be noted that ERA's projections of losses for operating the tour only under a new operator are somewhat higher than those projected by Disney. While we do not have access to the details of Disney's projections, ERA's projections benefitted from an engineering analysis which is part of our larger assignment. This analysis indicated that while some maintenance and utilities cost would be saved with hotel closure, substantial

maintenance of overall systems would still be required in this scenario. Thus, our figures include this high level of maintenance. It was not possible to determine what Disney's anticipated levels of maintenance were.

#### Option 5

The final option ERA examined is that of shutting down the hotel and tour, locking up/securing the ship and complex and providing minimal maintenance until a decision is made over its future.

From a cost standpoint, this is clearly the least expensive alternative. Maintenance costs are estimated at \$350,000 per quarter and would require a limited maintenance crew and small security staff. The City would lose the fiscal benefits of the transient occupancy tax, sales tax and property tax; net loss would be roughly \$700,000. The most negative impact would be the loss of almost all of the 985 jobs associated with the Queen Mary/Spruce Goose.

In summary, it is our recommendation that the Port and City of Long Beach weigh the net economic costs of keeping the Queen Mary hotel and tour open with the employment benefits. Our analysis shows that it will most likely cost a net \$2 million to \$3 million during the last quarter of 1992 to keep the hotel and tour open. Some several hundred thousand dollars or more could be saved by closing the hotel (depending on the operator). The hotel generates 440 jobs. Thus the Port and City would be paying from about \$500 to say \$1,000 per job next quarter to keep the hotel open and retain its employment. In addition the Port and City would be incurring the operating and financial risks discussed above. Looking at the broader complex which employs 985 persons, the Port and City would be paying about \$2,000 to \$3,000 per job next quarter to keep the entire complex open. Disney has pointed out that declining employee morale, theft, and workmen's compensation claims could add to the potential liabilities of keeping the complex open.

Although we did not perform an economic impact study of the hotel and tour operations for this report (economic impact will be considered in our final report), there is

an economic impact which must be weighed against the above-mentioned costs. The primary economic impact is created by spending and employment at the complex, while a secondary impact is created as visitor dollars are re-spent in the Long Beach economy.

**APPENDIX A**

Table A-1

**HOTEL QUEEN MARY<sup>1</sup>  
HISTORICAL OCCUPANCY  
1981-1991**

<u>Year</u>	<u>Hotel Queen Mary<sup>2</sup></u>	<u>Long Beach Competitive Hotels</u>
1981	47%	---
1982	57	---
1983	65	---
1984	69	---
1985	76	---
1986	76	---
1987	72	70%
1988	74	70
1989	69	71
1990	67	69
1991	60	68
1992 (year to date)	n.a.	62

n.a. means not available.

<sup>1</sup>365 rooms.

<sup>2</sup>1988-1991 Disney fiscal year.

Source: The Walt Disney Company; Port of Long Beach; Pannell Kerr Forster; and Economics Research Associates.



Table A-2

**AVERAGE DAILY RATE  
1982-1991**

<u>Year</u>	<u>Hotel Queen Mary<sup>1</sup></u>	<u>Long Beach Competitive Hotels</u>
1982	\$57	---
1983	62	---
1984	76	---
1985	74	---
1986	75	---
1987	77	\$78
1988	76	82
1989	82	85
1990	86	87
1991	88	86
1992 (year to date)	n.a.	87

n.a. means not available.

<sup>1</sup>1988-1991 Disney fiscal year.

Source: The Walt Disney Company; Port of Long Beach; Pannell Kerr Forster;  
and Economics Research Associates.

Table A-3

**CITY OF LONG BEACH  
TRANSIENT OCCUPANCY TAX COLLECTED  
1989-1991<sup>1</sup>  
(Thousands)**

	<u>Total Collected</u>	<u>Queen Mary Amount</u>	<u>Percent of Total Collected</u>
1989	\$6,716	\$715	10.6%
1990	7,092	688	9.7
1991	6,856	705	10.3

<sup>1</sup>Fiscal year ending June 30.

Source: Port of Long Beach, City of Long Beach, and Economics Research Associates.

Table A-4

LONG BEACH HOTEL INVENTORY<sup>1</sup>

	<u>Number of Rooms</u>
Hyatt Regency	521
Marriott Long Beach Airport	311
Queen Mary	365
Ramada Renaissance	380
Sheraton	460
Viscount	194
Hilton Long Beach	397
Travelodge	200
Golden Sails Hotel	175
Holiday Inn Airport	231
Holiday Inn Downtown	224
Clarion Edgewater	249
Executive House Inn	260
Residence Inn	216
Ramada Inn Long Beach	143
Howard Johnson	134
Breakers	<u>242</u>
Total	4,702

<sup>1</sup>Includes hotel properties with 100+ rooms.

Source: Economics Research Associates.

Table A-5

**AVERAGE ADMISSION PRICES AND LENGTH OF STAY  
AT SELECTED CALIFORNIA COMMERCIAL  
AND PUBLIC ATTRACTIONS**

<u>Attraction</u>	<u>Adult Admission</u>	<u>Length of Stay</u>	<u>Admission Price/Hour</u>
<b><u>Commercial Attractions—Averages</u></b>			
Theme Park	\$25.00	8.00	\$3.12
Large Water Park	17.00	5.00	3.40
Family Entertainment Center <sup>1</sup>	10.00	2.00	5.00
Movie	7.00	2.00	3.50
Urban Entertainment Center	12.00	3.00	4.00
<b><u>Public Attractions—Averages</u></b>			
Art Museum	\$ 5.00	1.75	\$2.86
Science Museum	5.50	2.00	2.75
Zoo	6.00	3.00	2.00
County Fair <sup>1</sup>	12.00	6.00	2.00
<b><u>Tourist-Oriented Attractions</u></b>			
Movieland Wax Museum	\$12.95	2.00	\$6.50
Ripley's Believe It or Not	6.95	1.00	6.95
Underwater World	10.00	1.25	8.00
Monterey Bay Aquarium	9.75	1.50	6.50
Queen Mary/Spruce Goose	17.95	2.50	7.18

<sup>1</sup> Average attraction expenditures (not including food and beverage expenditures).

Source: Economics Research Associates.

Table A-6

QUEEN MARY/SPRUCE GOOSE  
HISTORICAL PRICING

	<u>Adult Admission</u>	<u>Percent Change</u>
1981	\$ 6.00	---
1982	6.00	0%
1983	7.00	17
1984	8.70	24
1985	10.95	26
1986	13.95	27
1987	14.50	4
1988	14.95	3
1989	14.95	0
1990	17.50	17
1991	17.50	0
1992	17.95	2

Source: The Walt Disney Company and Economics Research Associates.

Table A-7

**QUEEN MARY/SPRUCE GOOSE  
HISTORICAL ATTENDANCE  
1981-1991<sup>1</sup>**

	<u>Annual Attendance</u>	<u>Percent Change</u>
1981	500	---
1982	540	8%
1983	1,400	159
1984	1,606	15
1985	1,292	(19)
1986	1,077	(17)
1987	1,014	(6)
1988	885	(13)
1989	898	1
1990	876	(2)
1991	808	(8)

<sup>1</sup>1988-1991 Disney fiscal year.

Source: The Walt Disney Company, Port of Long Beach, and Economics Research Associates.

Table A-8

**PROJECTED OPERATING REVENUES, EXPENSES, AND INCOME  
NEW OPERATOR, HOTEL CLOSED  
(Millions)**

Revenues	\$5.0
Operating Expenses	
Cost of Goods Sold	1.2
Labor	1.8
Non-Labor	<u>1.7</u>
Subtotal	\$4.7
Departmental Profit	\$0.3
Undistributed Expenses	
General and Administrative	0.3
Repairs and Maintenance	0.9
Credit Card Commission	0.06
Utilities	<u>0.4</u>
Subtotal	\$1.6
Fixed Charges	\$0.3
Allocated Expenses	
General and Administrative	0.0
Management Fee	0.2
Marketing and Advertising	<u>0.3</u>
Subtotal	\$0.5
Operating Income/(Loss)	(\$2.2)

Note: Numbers may not add due to rounding.

Source: The Walt Disney Company and Economics Research Associates.

Table A-9

**PROJECTED OPERATING REVENUES, EXPENSES, AND INCOME  
NEW OPERATOR, TOUR AND HOTEL OPEN  
(Millions)**

Revenues	\$7.1
Operating Expenses	
Cost of Goods Sold	1.5
Labor	2.6
Non-Labor	<u>2.3</u>
Subtotal	\$6.4
Departmental Profit	\$0.7
Undistributed Expenses	
General and Administrative	0.4
Repairs and Maintenance	1.4
Credit Card Commission	0.07
Utilities	<u>0.5</u>
Subtotal	\$2.3
Fixed Charges	\$0.3
Allocated Expenses	
General and Administrative	0.0
Management Fee	0.3
Marketing and Advertising	<u>0.4</u>
Subtotal	\$0.8
Operating Income/(Loss)	(\$2.8)

Note: Numbers may not add due to rounding.

Source: The Walt Disney Company and Economics Research Associates.





Table A-10

**ASSUMPTIONS - HOTEL AND TOUR OPEN WITH NEW OPERATOR**

Many of ERA's detailed assumptions and analyses were based on detailed confidential data provided to ERA by the Walt Disney Company. These assumptions and analyses can not be included in this document. The assumptions and analysis below, thus represent consolidated summary level information which is not restricted by the confidentiality agreement between ERA and the Walt Disney Company.

Year	Attendance	Market		Origin %	1991		1992	
		Resident	Tourist		Total	Attendance Change	Total	
1991	808,000			40%	323,200		0%	323,200
1992E	759,520			60%	484,800		-10%	436,320
Q4 Percent	21%							
Q4 Attendance	159,499				808,000			759,520

Note: Assumes Spruce Goose closes. Resulting drop in Q4 attendance will be balanced by increase in attendance due to lower admission price, last chance visitors, and lag in market awareness and reaction. Drop in tourist market attendance due to lower tourism resulting from L.A. riots.

**2. Revenues**

a. Hotel (1992E)	50%
- Occupancy	66,600
- Roomnights	\$82
- Avg. Room Rate	\$5.5
- Room Revenue (millions)	\$1.1
- Q4 Revenues (millions)	

**b. Other**

- Inflation	3.00%
- Per Capita (1992E)	

Note: Assumes loss in Food, Merchandise, and Other revenue due to Spruce Goose closure will be balanced by opening of Londontown with no gate. Attraction per capitas estimated to decline by 40 percent due to Spruce Goose closure; assumes admission price of \$10.95 for Queen Mary. Other expenditures decline by \$0.70 to account for decrease in parking revenues. Assumes reduction in parking fee by \$2.50 x 85% auto arrivals/3 persons per auto = \$0.70 per capita. Non-attraction per capitas inflated to 1992 dollars. Actual business unit per capitas and revenues confidential.

- Q4 Revenues \$7.1 million

**3. Direct Operating Expenses**

a. Assumes standard distribution of fixed and variable expenses in hotel and non-hotel operations. Direct expenses reduced by business unit volume accordingly (confidential data), and adjusted for CPI increase in labor rates. Entertainment expense reduced by 30%. Total 1992: Q4 labor expense estimated at \$2.6 million, non-labor expense \$2.3 million.

b. Cost of Goods Sold - Assumes attraction industry standards for food and beverage and merchandise adjusted to reflect Disney historical figures.

	Percent	Total Q4 (millions)
Food	30.00%	\$1.0
Merchandise	50.00%	\$0.4
Other	25.00%	\$0.1

**4. Indirect Operating Expenses (millions)**

	1991	1992E	Change	1992EQ4
a. Undistributed Expenses				
G & A	\$1.6	\$1.5	-10.00%	\$0.4
Repairs and Maint.	\$5.4	\$5.4	0.00%	\$1.4
Credit Card Comm.	\$0.3	\$0.3	-10.00%	\$0.1
Utilities	\$2.4	\$2.2	-10.00%	\$0.5
Subtotal	\$9.7	\$9.3		\$2.3

b. Fixed Charges - Assume Disney number

\$341,000

c. Allocated Expenses - Assume no corporate G & A allocation. Corporate G & A replaced with management contract at 4% gross revenues. Assume marketing consistent with attraction industry standards, or 6% to 9% gross, assume 7%.

	1991	1992E	1992EQ4
G & A	\$2.5	\$0.0	\$0.0
Management Fee	\$0.0	\$1.3	\$0.3
Marketing	\$5.0	\$2.4	\$0.5
Subtotal	\$7.5	\$3.7	\$0.8

**ASSUMPTIONS - TOUR OPEN, HOTEL CLOSED, NEW OPERATOR**

1. Revenues - All hotel revenues are lost. Lost merchandise expenditures from hotel guests are nominal. Lost food and beverage expenditures from hotel guests calculated as follows:

Average Expenditure per occupied room	\$60.00
Roomnights Q4	16,550
Total Lost Food and Beverage Expenditure (millions)	\$1.0

Food and Beverage revenues after loss due to hotel guest departure based on confidential data and is consolidated with other revenues.

2. Direct Expenses - direct hotel expenses are eliminated with hotel closure. Direct hotel expenses are confidential. Non-hotel expenses reduced by elimination of lost food revenue associated expenses. Assume direct food expenses equals 50 percent revenues. Direct food expenses are confidential. Expenses have been allocated to labor and non-labor based on historical percentages.

Total labor expense equals \$1.8 million. Non-labor expense equals \$1.7 million.

3. Indirect Expenses

a. Undistributed expenses

G & A reduced to reflect hotel portion of expense.

Repairs & Maintenance reduced by \$2.0 million annual (Q4 \$500,000) attributable to hotel.

CCC reduced to reflect hotel portion of expense.

Utilities reduced by \$600,000 annual (Q4 \$150,000) attributable to hotel.

b. Fixed expenses reduced by 10 percent.

c. Allocated Expenses same percentages, reduced due to lower revenues.

Source: Economica Research Associates

**APPENDIX B**

**CONFIDENTIAL**

**FORT PROPERTIES  
STATEMENT OF INCOME  
FISCAL YEARS ENDED SEPTEMBER 30  
(IN THOUSANDS)**

	1991	1990	1989	1988
<b>REVENUES</b>				
Room Rentals	\$ 4,999	\$ 7,265	\$ 7,425	\$ 7,304
Food Sales	12,781	13,580	13,986	12,851
Beverage Sales	3,375	3,385	4,286	3,778
Merchandise Sales	3,483	4,258	3,917	3,389
Admissions	10,539	11,284	10,141	10,788
Autos	4,891			
Other	4,589	4,389	3,321	2,884
<b>Total Revenue</b>	<b>42,117</b>	<b>44,063</b>	<b>42,986</b>	<b>41,084</b>
<b>COST OF SALES</b>				
Food	3,764	4,086	4,388	3,731
Beverage	2,673	1,822	1,774	1,731
Merchandise	2,022	1,826	1,582	2,109
Autos	48			
<b>Total Cost of Sales</b>	<b>6,906</b>	<b>6,894</b>	<b>6,739</b>	<b>6,451</b>
<b>Gross Profit</b>	<b>35,211</b>	<b>37,169</b>	<b>36,247</b>	<b>34,633</b>
<b>LABOR</b>				
Management/Clerical	2,366	2,438	2,250	2,191
Operating	8,724	9,373	8,728	8,359
<b>Total Labor</b>	<b>11,090</b>	<b>11,811</b>	<b>11,078</b>	<b>10,541</b>
<b>Other Direct</b>				
Depreciation	3,033	3,033	2,771	2,535
Repairs	1,597	1,421	716	317
Utilities	1,175	1,441	1,412	1,333
Security	1,457	1,232	913	762
Entertainment	3,551	4,573	1,365	1,882
Merchandise Support		148		
<b>Total Other Expense</b>	<b>10,855</b>	<b>13,469</b>	<b>6,875</b>	<b>6,765</b>
<b>Total Direct Expense</b>	<b>21,945</b>	<b>25,280</b>	<b>17,953</b>	<b>17,306</b>
<b>DEPARTMENTAL PROFIT</b>	<b>13,266</b>	<b>12,189</b>	<b>17,294</b>	<b>17,327</b>
<b>UNDISTRIBUTED EXPENSES</b>				
General and Administrative	1,631	3,468	3,180	3,733
Repairs and Maintenance	3,426	3,827	4,324	4,688
Credit Card Commissions	391	2,337	1,388	2,322
Utilities	2,408	2,337	2,086	2,022
Marketing/Sales		4,088		
Advertising		3,278		
<b>Total Undist. Expense</b>	<b>9,756</b>	<b>19,518</b>	<b>10,978</b>	<b>10,417</b>
<b>DIRECT PROFIT CONTRIBUTION</b>	<b>3,510</b>	<b>(7,429)</b>	<b>6,316</b>	<b>6,910</b>
<b>FIXED CHARGES</b>				
Depn. and Amortization	1,710	2,763	2,972	4,784
Property Taxes	811	859	824	417
Insurance	468	336		
Planned Mkt	89	88	357	
Other	230	351	337	123
<b>Total Fixed Charges</b>	<b>3,608</b>	<b>3,486</b>	<b>4,375</b>	<b>5,324</b>
<b>ALLOCATED REVENUES &amp; EXPENSES</b>				
Allocated Participant Revenue	(81)	(80)		
General and Administrative	2,314			
Attractions Merchandise	96			
Attractions Sales	3,324			
Advertising	1,679			
Marketing/Advertising			4,761	5,088
<b>Total Allocated Rev. and Exp.</b>	<b>7,532</b>	<b>(80)</b>	<b>4,761</b>	<b>5,088</b>
<b>OPERATING INCOME (LOSS)</b>	<b>\$ (7,966)</b>	<b>\$ (10,811)</b>	<b>\$ (2,170)</b>	<b>\$ (4,902)</b>

Notes: Prior year amounts have been re-stated to be consistent with the current year.



**Extension Options**  
**October 1, 1992 - January 2, 1993**

<u>Option</u>	<u>Estimated Cost to Port</u>	<u>Operations Risks</u>
Attraction & Hotel	\$2.7 - \$3.3 million	High
Attraction Only	\$1.3 - \$1.6 million	Moderate
Potential Savings If Attraction only	\$1.1 to \$2.0 million	Less Operating Risk

— Note: Assumes Spruce Goose is unavailable as of October 1, 1992



- Management Turnover - 22% of management have given or are expected to give notice shortly.
- Group Cancellations - As of March 20, 29% of overnight group bookings have cancelled for the October-December time period.
- Low Banquet Sales - Banquet bookings are running 70% below last year's pace, nearly all of which affects the October-December time period.
- Poor Guest Experience
  - Loss of Key Management
  - Higher likelihood of security incidents, particularly after hours
  - Declining staff morale and discipline
  - Need to increasingly rely on untrained, inexperienced, transient labor as current crew turns over.
- Greater Safety/Claim Risks
  - Workers' compensation claims
  - Guest accident claims
  - Port indemnifications

**CONFIDENTIAL**

# **Port Properties Three Month Operating Extension Scenario**

**DRAFT**  
March 25, 1992

4 901506 7.04

TO: DIRECTOR, PORT OF LOS ANGELES  
FROM: PORT OF LOS ANGELES  
DATE: 3/25/92

**Executive Summary**  
**(\$ millions)**

**Proposal Summary**

Disney will continue to operate the Queen Mary/Spruce Goose Entertainment Center until September 30, 1992. Following that date, Disney will manage the Queen Mary operation for the Port of Long Beach, at no cost and at no profit to Disney, for an additional three months (October 1, 1992 - January 2, 1993). This proposal assumes that the Spruce Goose and the Dome will not be available for use after October 1, 1992.

**Estimated Operating Results**

Estimated operating results for the period of October 1, 1992 - January 2, 1993 is a net cash loss ranging from \$2.0 to \$3.0 million.

## Queen Mary/Spruce Goose Historical Trends

Operating Statistics	Pre-Disney (Calendar Year)				Disney (Fiscal Year)				
	'84	'85	'86	'87	'88	'89	'90	'91'	'92
Hotel									
Occupied Rooms	97,600	108,357	108,082	102,528	98,406	90,965	84,327	78,738	
Occupancy %	60%	76%	76%	72%	74%	69%	67%	60%	
Available Rooms	142,740	142,350	142,350	142,350	133,590	132,860	125,167	132,370	
Average Rate				\$77	\$76	\$82	\$86	\$88	
Local Area **									
Occupied Rooms				385,100	456,400	551,525	535,520	527,000	568,000
Occupancy %				72%	70%	71%	69%	68%	62%
Available Rooms				536,185	658,270	771,975	771,975	771,975	916,880
Average Rate				\$78	\$82	\$85	\$87	\$86	\$87
Long Beach Hotel Openings (Rooms)									
	'85			'87	'88	'89			'92
	Hyatt (513)			Remada (380)	Marriott (311)	Sherraton (502)			Hyatt (393)
Travelodge (180)									
Attraction									
Attendance(000's)	1,606	1,292	1,115	1,012	885	898	876	808	
Per Capita	\$8	\$9	\$11	\$12	\$12	\$11	\$13	\$13	
Capital Expenditures (000's)	\$2,208	\$2,620	\$3,900	\$1,200	\$1,124	\$1,002	\$4,221	\$2,307	
Operating Income (Loss) (000's)	\$2,182	\$878	\$123	\$(1,418)	\$(4,902)	\$(2,107)	\$(10,811)	\$(7,965)	

\* Fiscal 91 ends on September 30, 1991.

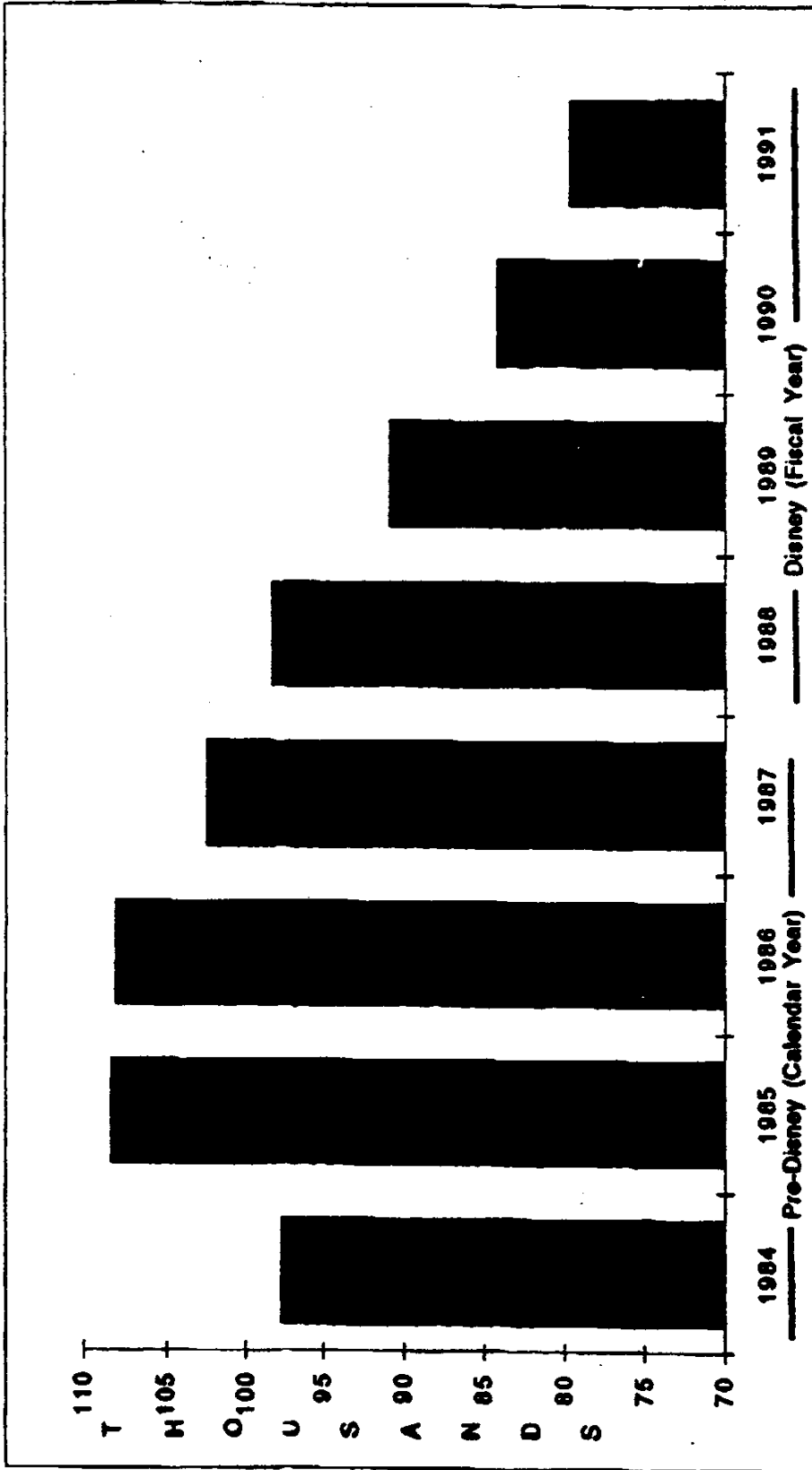
\*\* Sources: Parnell, Kerr & Foster - 1992 Los Angeles Lodging Forecast

P. 8  
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TO  
REPORT OF L.B.-PLANNING

**WCO PORT PROPERTIES**  
**HOTEL QUEEN MARY**  
 Hotel Occupied Rooms  
 1984 - 1991

EXHIBIT I

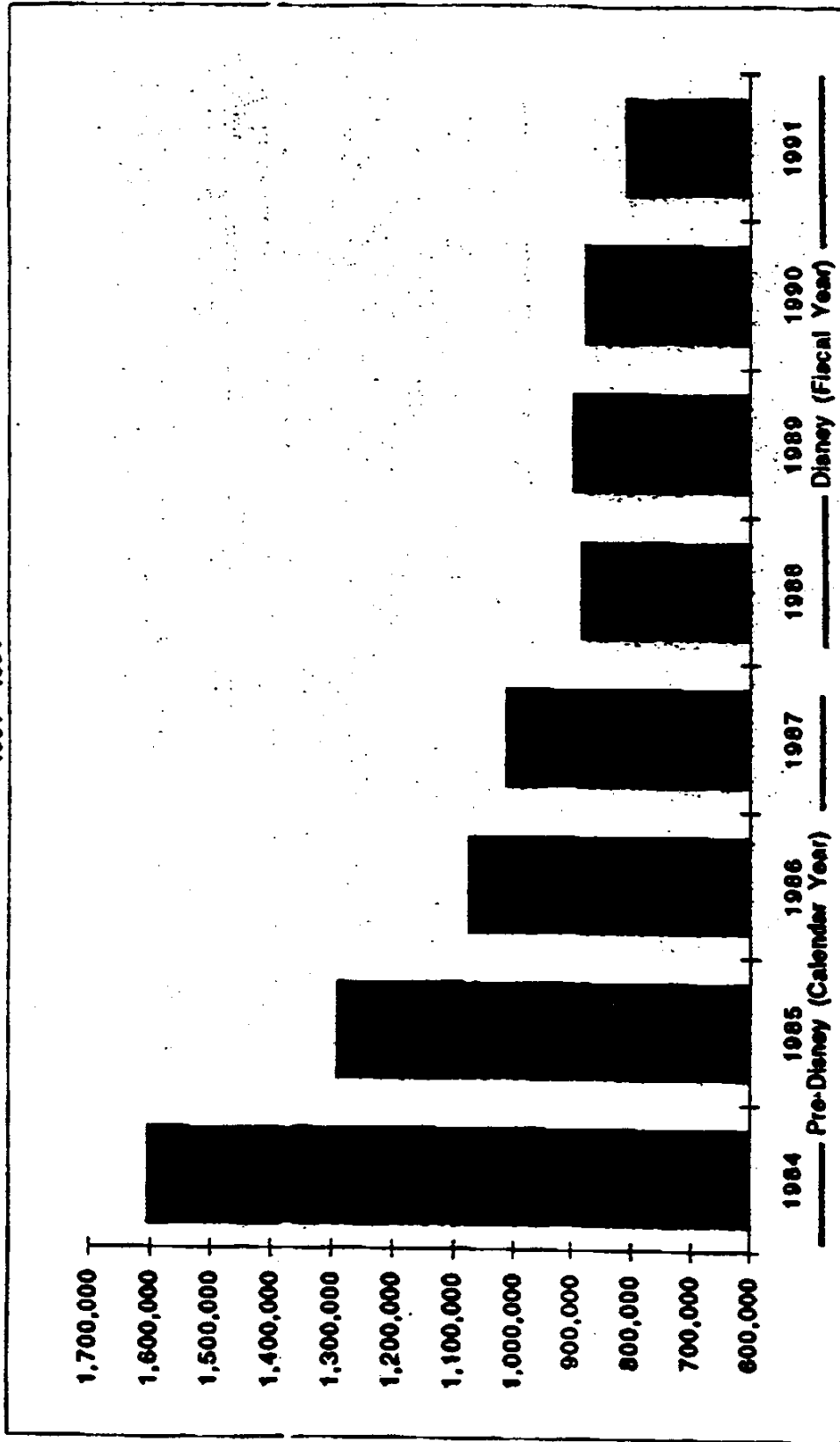


Avg. Annual % Change	
'85-'91	(2.7%)
'87-'91	(5.9%)

Year	1984	1985	1986	1987	1988	1989	1990	1991
Occupied Rooms	97,800	108,350	108,100	102,500	98,400	90,965	84,290	79,738
% Change over PY		10.8%	0.2%	(5.2%)	(4.0%)	(7.6%)	(7.3%)	(5.4%)

**WCO PORT PROPERTIES**  
**QUEEN MARY & SPRUCE GOOSE**  
 Annual Attraction Attendance  
 1984 - 1991

Exhibit #



Avg. Annual % Change
'85-'91 '87-'91
(10.7%) (6.1%)

Attendance	1984	1985	1986	1987	1988	1989	1990	1991
	1,606,400	1,292,400	1,076,700	1,013,700	884,500	897,700	876,204	607,882
% Change over PY		(24.3%)	(20.0%)	(6.2%)	(14.6%)	1.5%	(2.5%)	(8.5%)

**3 Month Extension Period**  
**Estimated Operating Results Summary**  
**Three months ending January 2, 1993**

(\$ Thousands)

	Hotel Occp. 50% Attendance 164K	Hotel Occp. 55% Attendance 204K	Hotel Occp. 60% Attendance 204K	Hotel Occp. 65% Attendance 204K
<b>TOTAL REVENUE</b>	\$7,899	\$8,957	\$9,451	\$9,949
<b>TOTAL OPERATING EXPENSES</b>	<u>(\$6,720)</u>	<u>(\$7,109)</u>	<u>(\$7,331)</u>	<u>(\$7,663)</u>
<b>DEPARTMENTAL PROFIT</b>	\$1,179	\$1,848	\$2,121	\$2,287
<b>UNDISTRIBUTED EXPENSES</b>	(\$2,249)	(\$2,256)	(\$2,260)	(\$2,263)
<b>FIXED CHARGES</b>	(\$341)	(\$347)	(\$349)	(\$352)
<b>SUPPORT COSTS</b>	<u>(\$1,645)</u>	<u>(\$1,645)</u>	<u>(\$1,645)</u>	<u>(\$1,645)</u>
<b>NET CASH LOSS</b>	<u>(\$3,056)</u>	<u>(\$2,400)</u>	<u>(\$2,133)</u>	<u>(\$1,973)</u>

**3 Month Extension Period  
Estimated Operating Results  
Three months ending January 2, 1968**  
(\$ Thousands)

	Hotel Corp. 50% Attendance 1941K	Hotel Corp. 50% Attendance 204K	Hotel Corp. 60% Attendance 204K	Hotel Corp. 60% Attendance 204K
<b>REVENUES</b>				
Room Rentals	\$1,367	\$1,502	\$1,635	\$1,769
Food Sales	\$3,674	\$3,352	\$3,615	\$3,686
Beverage Sales	\$630	\$602	\$676	\$1,044
Manufacture Sales	\$427	\$459	\$659	\$659
Admissions	\$1,161	\$1,256	\$1,296	\$1,766
Other	\$1,129	\$1,248	\$1,261	\$1,291
<b>TOTAL REVENUE</b>	<b>\$7,388</b>	<b>\$6,617</b>	<b>\$6,451</b>	<b>\$6,649</b>
<b>OPERATING EXPENSES</b>				
Cost of Food Sold	(600)	(610)	(614)	(618)
Cost of Beverage Sold	(816)	(817)	(818)	(820)
Cost of Merchandise Sold	(279)	(248)	(248)	(248)
Total Labor	(2,000)	(2,116)	(2,205)	(2,400)
Other Expenses				
Cleaning	(666)	(667)	(689)	(699)
Catering	(66)	(66)	(66)	(66)
Cultural	(600)	(600)	(600)	(600)
Central Reservation	(75)	(75)	(75)	(75)
Commissions	(27)	(27)	(27)	(27)
Security	(120)	(120)	(120)	(120)
Entertainment	(79)	(79)	(79)	(79)
Total Other Expenses	(2,363)	(2,450)	(2,498)	(2,526)
<b>TOTAL OPERATING EXPENSES</b>	<b>(6,786)</b>	<b>(6,709)</b>	<b>(6,731)</b>	<b>(6,903)</b>
<b>DEPARTMENTAL PROFIT</b>	<b>\$1,178</b>	<b>\$1,246</b>	<b>\$1,212</b>	<b>\$1,207</b>
<b>UNDISTRIBUTED EXPENSES</b>				
Repairs/Maintenance	(662)	(662)	(662)	(662)
Property G/A	(662)	(662)	(662)	(662)
Catering/Concession	(662)	(662)	(662)	(662)
Capital Cost Contributions	(224)	(224)	(224)	(224)
Utilities	(600)	(600)	(600)	(600)
<b>TOTAL UNDISTRIBUTED EXPENSES</b>	<b>(3,750)</b>	<b>(3,750)</b>	<b>(3,750)</b>	<b>(3,750)</b>
<b>DIRECT PROFIT CONTRIBUTION</b>	<b>(1,270)</b>	<b>(1,270)</b>	<b>(1,270)</b>	<b>(1,270)</b>
<b>FIXED CHARGES</b>				
Depreciation/Amortizable	\$0	\$0	\$0	\$0
Property Taxes	(66)	(66)	(66)	(66)
Insurance	(146)	(146)	(146)	(146)
Personnel Work	(67)	(67)	(67)	(67)
Other	(529)	(529)	(529)	(529)
<b>TOTAL FIXED CHARGES</b>	<b>(808)</b>	<b>(808)</b>	<b>(808)</b>	<b>(808)</b>
<b>SUPPORT COSTS</b>				
Misc G/A	(66)	(66)	(66)	(66)
Advertising	(170)	(170)	(170)	(170)
Marketing	(270)	(270)	(270)	(270)
<b>TOTAL SUPPORT COSTS</b>	<b>(506)</b>	<b>(506)</b>	<b>(506)</b>	<b>(506)</b>
<b>NET CASH LOSS</b>	<b>(15,646)</b>	<b>(12,492)</b>	<b>(12,132)</b>	<b>(11,972)</b>



**3 Month Extension Period  
Revenue Assumptions**

	Three Months Ending	
	12/28/91	1/2/93
<b>Room Rentals</b>		
• Occupancy	60%	50 - 65%
• Average Rate	\$83	\$82
<b>Food Sales/Occupied Room</b>	\$196	\$179
<b>Beverage Sales/Occupied Room</b>	\$53	\$49
<b>Merchandise Sales/Attendee</b>	\$4.51	\$3.37
<b>Admissions</b>		
• Attendance (000's)	156	164 - 204
• Per Cap	\$12.26	\$6.69 - \$6.37
<b>Other/Occupied Room</b>	\$57	\$68 - \$60

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TO

1992-1993 10-14 FAX

### 3 Month Extension Period Revenue Assumptions

#### Room Rentals

- Occupancy

- Hotel occupancy is assumed to be within a range of 50% - 65% for the final three months. This assumption compares with 60% in the 4th calendar quarter of 1991.
- The occupancy range assumes a "last chance to visit the Queen Mary" marketing campaign, but also reflects the uncertainty of hotel room nights. As a comparison, the annual decline in occupied room nights has averaged (2.7%) since 1985 and more recently (5.9%) since 1987 (see Exhibit I, page 4).

- Key Long Beach market hotel annual inventory growth has contributed to the gradual and consistent occupancy decline at the Hotel Queen Mary. Annual local inventory has increased 71% since 1987, with a corresponding occupancy decline from 72% in 1987 to 62% (estimated\*) in 1992. Refer to the "Historical Trends" summary on page 3.

- Rate

- Rate is assumed to be \$82, which represents a decline of (\$0.95) or (1%) from the same period in the prior year. This rate decline assumption is also associated with the increased supply of room nights in the local area.

#### Food Sales

- Principal driver is hotel occupancy.
- Fast food outlets are driven by attraction attendance.
- After adjusting for the Spruce Goose Dome closure, the assumed average rate increase of 2% (annualized) suggests a limited upside to outlet price increases and local market place competition holding catering pricing flat.

#### Beverage Sales

- Same assumptions as food sales.

#### Merchandise Sales

- Principal driver is attendance.
- After adjusting for the Spruce Goose Dome closure, spending per capita are assumed to remain flat.
- Merchandise programs will essentially be current mix of shops (excluding the Flight Shop in the Dome) and selections. No new programs will be added to minimize risk of slow-moving or obsolete inventory conditions.

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\* Source: Pannell, Kerr & Forster - 1992 Los Angeles Lodging Forecast

### 3 Month Extension Period Revenue Assumptions (continued)

#### Admissions

- Attendance
  - Assumed attendance totals for the final three months are within a range of 164,000 - 204,000 (including New Year's Eve attendance of 8,000) guests.
  - Attendance is assumed to remain flat or increase by 25% versus the same prior year period due to lower admission pricing. The annual attendance decline has averaged (10.7%) since 1985, and (6.1%) since 1987 (see Exhibit H, page 5).
- Admissions Per Cap
  - The per cap range is a blended rate of \$6.37 to \$6.69 representing a one price admission structure for all guests over 3 years of age at \$5.00 and New Year's Eve admissions at \$45.00. Admission pricing assumes that the Spruce Goose will not be available for viewing after October 1, 1992.

#### Other

- Principal drivers are hotel occupancy and attendance with consideration for the Catalina Express lease and parking.
- Rates are assumed to be flat.

**3 Month Extension Period  
Expense Assumptions  
(\$ Thousands)**

**Cost of Sales:**

Food and Beverage costs are based upon the same prior year period percentages adjusted for an assumed increase in inventory shrinkage.

	Base	Adjustment	Pro Forma Total
Food	29.0%	1.5%	30.5%
Beverage	18.3%	1.0%	19.3%

Merchandise costs are based on the same prior year period COS of 47% increased to 53% due to excess shrinkage and markdowns.

**Labor:**

Labor hours are based on the same prior year period adjusted to follow occupancy levels. Labor rates are based on the same prior year period adjusted for standard rate increases.

**Other Expenses:**

Overall, expenses are based on the same prior year period adjusted for inflation at 4%. Specific adjustments or alternative assumptions were made to the following:

**Operating:**

Based on historical trends as a percent of total revenue (7%).

**Security:**

Based on the same prior year period budget adjusted for inflation. In addition, an allowance over the base is applied assuming increased costs related to staffing, anti-theft and re-keying programs.

	Base	Adjustment	Pro Forma Total
Expense	<u>\$365</u>	<u>\$161</u>	<u>\$526</u>

**Entertainment:**

Based on the same prior year period Entertainment schedule adjusted for inflation with the following adjustment due to the cancellation of the Haunted Passages Tour:

	Base	Adjustment	Pro Forma Total
Expense	<u>\$1208</u>	<u>\$(500)</u>	<u>\$708</u>

**3 Month Extension Period  
Expense Assumptions  
(\$ Thousands)**

**Other Expenses (continued)**

**Repairs & Maintenance:**

Maintenance management reviewed staffing levels and jobs required under a minimal maintenance program with consideration for maintaining overall safety. Also included is an allowance of \$40K for asbestos abatement related to repairs and maintenance. Maintenance expenses were reduced from the same prior year period budget as follows:

Expense	Base	Adjustment	Pro Forma Total
	<u>\$1358</u>	<u>\$(556)</u>	<u>\$802</u>

**General & Administrative:**

Followed the same prior year period base plus inflation methods with the following contingency adjustment:

Expense	Base	Adjustment	Pro Forma Total
	<u>\$312</u>	<u>\$250</u>	<u>\$562</u>

**Planned Work:**

Represents an allowance for one time maintenance jobs, assumed to be 25% of spending for same period in the prior year.

Expense	Base	Adjustment	Pro Forma Total
	<u>\$267</u>	<u>\$(200)</u>	<u>\$67</u>

**Support Costs/Ste G & A:**

Reflects direct support costs related to the Queen Mary operation. These costs include Accounting/Finance, Human Resources, Purchasing, Legal and Information Services. Based on the same prior year period adjusted for inflation.

**Marketing/Advertising:**

Reflects a 30% reduction from the same prior year period budgeted levels. Program will include promotion of new attraction ticket pricing, general awareness resident message, as well as New Year's Eve.

Expense	Base	Adjustment	Pro Forma Total
	<u>\$1187</u>	<u>\$(342)</u>	<u>\$840</u>