

OPERATION BOOTSTRAP

Implementation

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Operation Bootstrap is a Petersburg Economic Revitalization Plan that calls for a complex of historic theme parks, referred to as the Petersburg Parks. Reports have been published describing the complex in detail, its employee requirements and the Economic Considerations. An update has also been published.

The Petersburg Parks run along River Street and cover Pocahontas Island. They will bring a great many people into the city and that, in itself, will do much for the economic health of the community. However two additional reports describe how the economic benefits can be considerably expanded. *Penetrating Petersburg* describes how to get visitors up the Sycamore Street Hill to Washington Street, where they can visit local shops and stores. *Fostering Economic Revitalization* describes ways that proper planning and management can substantially increase the economic benefits to the city.

The purpose of this report is to explore the ways that Operation Bootstrap can be implemented. It's primary goal is economic revitalization, so the reader is strongly urged to be familiar with *Fostering Economic Development* prior to reading this report.

Walt Disney had a vision - to create an environment that would provide families with a fun day-trip destination and an escape from the humdrum of everyday life. He had nowhere near the money required to build such an ambitious project so one of the things he did was convince American companies to pay for some of the attractions. Bank of America financed "Small World," McDonald Douglas paid for "From the Earth to the Moon," Monsano built the "House of Tomorrow" and United Airlines sponsored the "Enchanted Tiki Room."

General Electric provided the "Carousel of Progress." It was the primary attraction of the General Electric Pavilion for the 1964 New York World's Fair. It was moved to Disneyland Park in Anaheim, California, and remaining there from 1967 until 1973. It was replaced in Disneyland by "America Sings," in 1974, and reopened in its present home in Walt Disney World Resort's Magic Kingdom in 1975.

Carousel of Progress shows how the ever-widening use of electricity has impacted the American home. It's premise is an exploration of the joys of living through the advent of electricity and other technological advances during the 20th century via a "typical" American family. To keep it up with the times, the attraction is constantly updated. It holds the record as the longest-running stage show, with the most performances, in the history of American theater.

The circular stage is divided into six wedge-shaped sections. The first and the last scenes are basically identical and involve the loading and unloading of guests. The other four scenes, or "acts", depict an Audio-Animatronic family, narrated by the father, named John, interacting with the latest technology and innovations during a particular era. The audience is seated in ring which surrounds it, which is the carousel. It turns, revealing one scene after another, accompanied by the attraction's theme song:

There's a great big beautiful tomorrow
Shining at the end of every day
There's a great, big, beautiful tomorrow
And tomorrow's just a dream away

Man has a dream and that's the start
He follows his dream with mind and heart
And when it becomes a reality
It's a dream come true for you and me

So there's a great, big, beautiful tomorrow
Shining at the end of every day
There's a great, big, beautiful tomorrow
Just a dream away

Walt Disney often said that the Carousel of Progress was his favorite attraction and that it should never cease operation. Of course, Disneyland was his dream and he turned it into a reality.

Today the City of Petersburg owns an abundance of land along River Street and on Pocahontas Island that contains two historic railroad stations and other assets. No formal plan has ever been developed for the usage of this land. The city's biggest asset is its long and diverse history. *Operation Bootstrap* utilizes the land for economic development through a complex of historic theme parks. Neither the land nor the plan is worth anything by itself, but together they are a highly viable package.

Economic Revitalization is Petersburg's dream and it must also be turned into a reality. There are three basic ways that can be done: Each offers advantages and disadvantages, which are explored in the report.

Option I - Sell the Package

This is the easiest option. In the course of putting this project together, I have identified several potential buyers. Under this option, the package would be sold to a "New Owner," who would build and manage the parks.

This option will result in the City of Petersburg receiving a lump sum of money, representing the purchase price, but no residual payments. In the long run, it will benefit from visitors coming into the city. Best of all, it doesn't have to do anything.

The City of Petersburg recently paid \$2.5 million for the 25 acres Roper Lumber lot, establishing the value at \$100,000 an acre. Applying that figure to the 121 acres now owned by the city, results in a value of \$12.1 million. This does not include the historic train stations, nor the money spent on restoring cobblestone streets, adding brick sidewalks, the new parking lot on Pike (River) Street and other improvements to the infrastructure. This probably brings the cost basis up to \$15 million.

The Petersburg Parks are not only the means to increase visitor traffic, but they will be a highly profit venture in their own right. The *Financial Consequences* report calls for building them in four phases over a period of five years to minimize the cash requirements. At the end of the fifth year, the Petersburg Parks will have paid for their entire \$20 million cost and will then be spinning off \$25 million in annual profits. That figure will surely grow.

The value of land is based primarily on the income it can generate. In view of the park's income potential, selling the land should only be considered if the price is several times the cost

basis. The sale should be profitable in itself.

The Petersburg Parks will be the goose that lays the golden eggs. Selling the package results in the New Owner getting all the golden eggs.

Option II - Joint Venture

Under this arrangement the City of Petersburg would enter into an agreement with a “Partner.” This could be legally structured as a partnership or a joint venture, but could also be accomplished through a land lease.

The City would retain ownership of the real property, and the Partner would finance, build and manage the parks.

Profit sharing is so dangerous that it has been compared to “swimming with sharks,” as the Partner controls the money, which provides many opportunities to cheat. This can take the form of adding extensive parent company expenses, such as an allowance for overhead and large bonuses to executives. Theoretically the partner, if any distance away, could charge off the cost of a corporate jet to the parks. A partner can also purchase many things from companies which it owns or has an interest at higher than market rates, thus effectively shifting profits from one place to another.

To some extent abuses can be precluded by the terms of the agreement, but this can result in constant audits. The cleanest way of handling it is for the city of receive payment based on the gross receipts.

Option III - City Ownership

Under this option, the City of Petersburg would own the Petersburg Parks. The problem is that city does not have the resources to undertake such a large venture. For example, when complete, the Petersburg Parks will employ 195 people full time and 350 summer employees. Providing them is way beyond the capabilities of the city’s human resource department. The parks will have enormous purchasing needs which will overwhelm the city’s purchasing department. City Council approval may be required of many contracts. Main Street contains the equivalent of 178 stores. City Council approval would normally be required for the leases. Of course, there could be provision for assigning such routine tasks, but that would require the establishment of a new office.

Even more important is the Petersburg Parks will require energetic, dynamic people, with imagination. This is a different mentality than that of the government worker who is accustomed to fixed procedures. Business initiates. Governments regulate. They Petersburg Parks executives must have the ability to make business decisions quickly and independently of outside influences. If owned by the city, then many decisions will have to made by City Council and this can be time-consuming and subjected to political considerations. This can easily become a major obstacles to the success of the project.

These problems can be solved by establishing an independent corporation to build and manage the parks. The 1829 Common Council commissioned the survey for the city’s first railroad and then conducted a feasibility study. This resulted in the chartering of the Petersburg Railroad, which sold stock to investors and was privately owned. This precedent can be followed.

On the other hand, in 1848, the City of Petersburg established a new corporation, the Appomattox Railroad, which purchased the City Point Railroad. It then turned the management over to professionals, thus limiting its role to ownership.

Although stock can be sold to private investors, it would probably be best for all of the stock to be owned by the City of Petersburg. The corporation would employ its own management team or contract out the management. The City maintains overall control by establishing goals, budgets and procedures, but does not micro-manage.

The City of Petersburg would then convey all of the real estate to the Petersburg Parks. This is really nothing more than moving it from one pocket to another, as the city owns all the stock in the corporation. The Petersburg Parks could then use the land to secure financing.

Phase I has a simple goal - get the first train into operation. It calls for improving the infrastructure by rebuilding the destroyed bays of Southside Station, converting the present day "swamp" of a harbor into a scenic lake and demolishing some of the Roper Lumber Company buildings. It also include adding a snack bar, gift shops and exhibits to the reconstructed bays of Southside Station. This is budgeted at \$2.55 million. The contingency fund increases it to \$3 million. This is very little money to get started on something which reap such rewards and half of its goes into improving the city's infrastructure, a cost which would otherwise be paid by the city.

As noted above, the land has a cost basis of \$15, but is worth several times that. The Petersburg Parks Corporation can use the land to secure a loan for the \$3 million required to get started, The addition of improvements and a money-making attraction will substantially increase the value of the property. This will make it possible to finance later phases. Economic Considerations calls for 100% outside financing. This result is that the Petersburg Parks can be built for no out-of-pocket expense to the City of Petersburg.

The biggest advantage of city-ownership is that the City of Petersburg maintains control over the Parks.

Major Considerations

The introduction to *Fostering Economic Revitalization* states:

Paramount Pictures built King's Dominion for one purpose - to get money out of Virginia and to funnel it back to California. The goal of *Operation Bootstrap* is draw people and money into Petersburg from other areas, especially from other states. Once that money comes into the city then means must be found to keep as much of that money in the city as possible. The Petersburg Parks will be very profitable and the wealth must not be accumulated. Rather it needs to be diffused into the community.

This report recognizes that the greatest asset of any community is its people. It explains the necessity of establishing an environment where entrepreneurs can flourish and suggests ways to create it. It recognizes that the Petersburg Parks will have enormous purchasing needs and explores ways to establish local companies that can fill those needs.

A New Owner or Partner is going to be in the same position as Paramount Pictures. It's primary objective will be to enrich itself. It will use the Petersburg Parks to make money, but will

then funnel it back to corporate headquarters. The only way that the full economic potential of the Petersburg Parks can be controlled is by city ownership.

Of course, the impact can be mitigated by the structuring of the deal. The City of Petersburg does not now own the Electric Building, so it cannot transfer the property. It can later acquire it for use by reconstructed electric streetcars, which can transport visitors up Sycamore Street thus meeting the goals set forth in *Penetrating Petersburg*.

Fostering Economic Revitalization calls for the west bays of southside Station to be used as an incubator to help start new businesses. That property can be withheld from the transfer to facilitate achieving that goal. Main Street will be the retail complex and all plans call for it to be a separate project due to its large size. It could also be withheld from the transfer and developed independently. It is doubtful that a New Owner or Partner will be receptive to provisions that provide for contracting out concessions or being required to at least attempt to buy from local suppliers. It will almost certainly not foster the creation of new firms to meet its needs.

Petersburg is acutely aware of its history and a goal of the parks is to provide historically accurate reconstructions, activities and entertainment. A new owner or partner may not like those standards and may want to cut corners on the reconstructions and it may want to introduce high tech amusement park type rides. This can be prevented by law, such as review of all projects by the Architectural Review Board or another such entity and by contractual provisions.

In an ideal world, the New Owner or Partner will be very cooperative in such matters, but a big danger is that we live in a world of mergers and acquisitions. The other party may be bought out by another company, one with an entirely different philosophy. Or, it might decide to sell the parks to another company. The replacement party may not be as easy to work with.

These situations can possibly be addressed by a “reversion clause” that would void the original contract under such circumstances. It could then be negotiated

Recommendation

Selling the package to a New Owner will result in it getting all the golden eggs. A joint venture will certainly result in the Partner getting them bulk of them. The City of Petersburg has spent over a quarter of a century assembling the necessary land and to my way of thinking, it should get all the eggs. The city can certainly use an additional \$25 million a year.

I recommend city ownership. Management can be provided by a newly established corporation or by contracting it out to a company experienced in such operations.