



Interim Report to the Minnesota Legislature | March 31, 2015

Purpose

The Minnesota Zoological Board submits this interim report to update members of the Legislature regarding the Board's financial plans to ensure the long-term financial stability and success of the Minnesota Zoological Garden as required by Laws 2015, Chapter 3, Section 8:

Sec. 8. ZOOLOGICAL BOARD; APPROPRIATION.

(a) \$1,350,000 is appropriated from the general fund to the Zoological Board in fiscal year 2015 to supplement the appropriation in Laws 2013, chapter 114, article 3, section 8. This is a onetime appropriation.

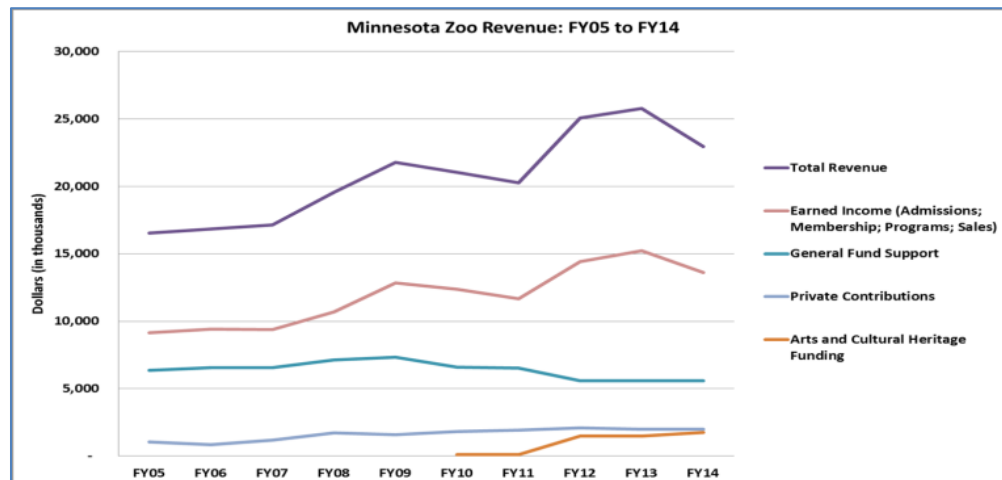
(b) By December 15, 2015, the Zoological Board shall submit a report to the chairs and ranking minority members of the house of representatives and senate committees and divisions with jurisdiction over the Minnesota Zoological Garden that details the board's financial plan to ensure the long-term financial stability and success of the zoo. The board shall submit an interim report to the chairs and ranking minority members by April 1, 2015.

Laws of Minnesota 2015, Chapter 3.

Background and Situation Analysis

The Minnesota Zoo is a unique State agency, created by statute as a public private partnership. The Zoo's operations are and have historically been funded by revenues from a variety of sources including State general fund appropriations, restricted appropriations from the Arts and Cultural Heritage Fund or other State restricted funds, earned income and charitable contributions.

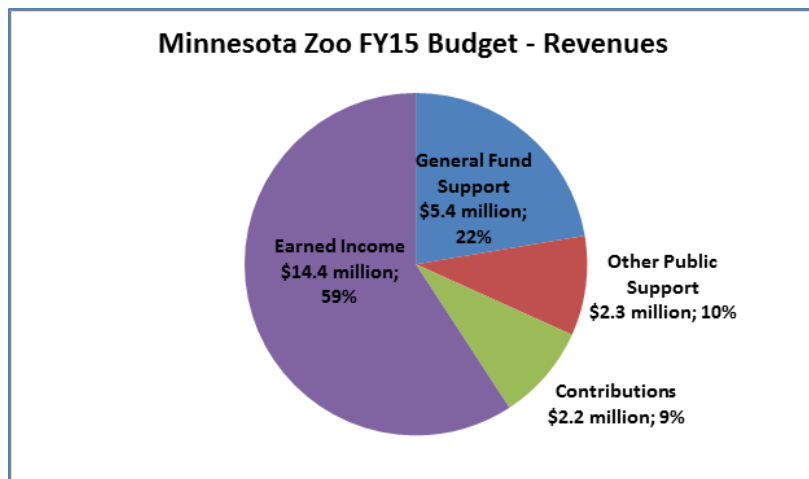
As shown on the chart below, Zoo revenues have generally been rising over the past ten years.



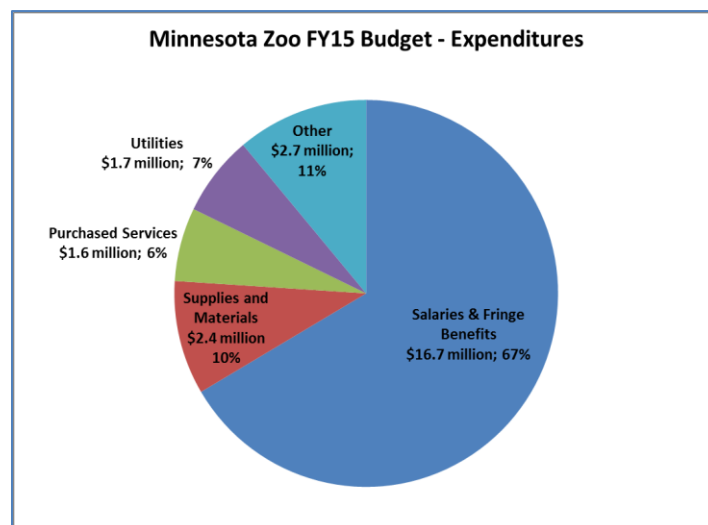
The chart also indicates that since 2009:

- State general fund appropriations have been continually decreasing and are now at 22% of Zoo revenues—an historic low that is well below the national average for public operating support for accredited Zoos (34%).
- Charitable contributions have been consistently rising, but remain a small component of revenue.
- Earned revenues are variable, often due to circumstances beyond the Zoo’s control such as weather and the overall economy.

By FY15, the Zoo predicted that almost 60% of the revenue needed to cover operating expenses would need to come from earned revenues.



At the same time, Zoo expenses have continued to increase with almost 70% of the Zoo’s budget comprised of staff compensation related expenses.



By early fall of 2015, the Minnesota Zoo found itself facing a difficult financial situation:

- FY15 anticipated expenses were projected to exceed projected revenues by \$1.5 million.
- Available cash would be depleted by early spring.

As soon as it had these facts in hand, the Zoo requested a relatively small additional investment by the State through a deficiency appropriation to stabilize the Zoo's finances for the remainder of the current fiscal year and to help secure the Zoo's future as one of Minnesota's premier education, conservation and recreation destinations.



The Zoo's financial situation developed through a combination of factors including higher-than-anticipated increases to fixed expenses such as compensation, energy, and animal feed combined with lower-than-anticipated revenues from admissions and memberships. Cost pressures that were identified during FY15 budgeting led the Zoo to set aggressive attendance and earned revenue projections. The Zoo fell short of those goals thanks to last year's 'polar vortex,' a record-setting wet June, and a summer 2014 exhibit (*Big Bugs!*) that did not meet attendance expectations.

As a result, the Minnesota Zoo was on track to complete FY15 with a deficit of nearly \$1.5 million with no available cash to close the gap between revenue and expenses.

The Minnesota Zoo is grateful that, with the support of the Legislature and Governor, the 2015 deficiency appropriation of \$1.35 million resolved this immediate problem and ensured that the Zoo would not have to compromise its guest experience by closing exhibits or ending programs through the end of the fiscal year.

The Zoo is now addressing the systemic problems underlying this year's financial difficulties and developing plans to provide for the Zoo's long-term financial sustainability. This analysis and planning began earlier this year as the Minnesota Zoo Board in conjunction with the board of the Minnesota Zoo Foundation began extensive strategic planning.

Through this planning process, the Zoo recognized that with the inevitable ongoing trend of rising expenses beyond the Zoo's control, combined with the historic volatility of earned revenue, an increased long-term investment from the State is an essential component of the Zoo's long-term health and role as a statewide resource for families, educators and the environment. The financial sustainability of the Minnesota Zoo is dependent on a recalibration of the State's general fund investment in its Zoo and a return to providing approximately 1/3 of the Zoo's annual operating revenues.

Accordingly, the Zoo is currently requesting \$8.25 million per year for FY16 and FY17 for operating support from the State general fund. Additional actions being taken by the Zoo are discussed below.



What We Are Doing: Short-Term

The Minnesota Zoo is currently pursuing a number of strategies and tactics to address its immediate fiscal situation.

Revenue:

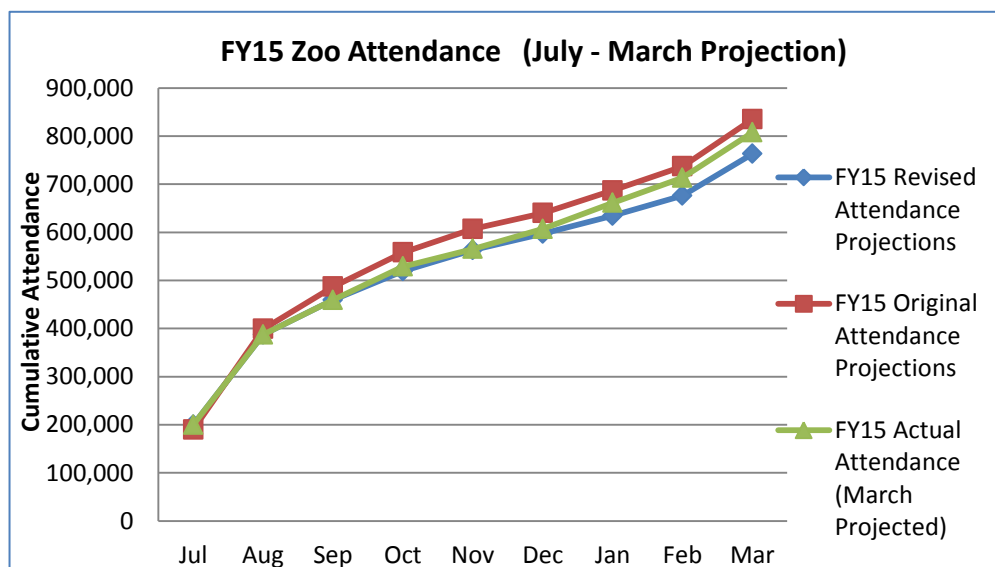
The Zoo is committed to increasing private revenues to supplement State support by:

1. Increasing private support from charitable contributions through the Minnesota Zoo Foundation:
 - Increasing contributions for Zoo operations from \$2.0 million to \$2.26 million in FY15 with additional increases planned for future years.
 - Reaffirming commitment to raise funds for future capital projects.

Status: The Minnesota Zoo Foundation is on track to meet its increased obligation to provide \$2.26 million in contributions for Zoo Operations. Capital fundraising efforts are also underway.

2. Driving attendance through new exhibits and attractions by:
 - Elevating the year-round value proposition of the Minnesota Zoo to attract more guests and increase the annual value of membership through improved marketing efforts.
 - Reopening Discovery Bay, becoming the only home in North America for highly endangered Hawaiian Monk Seals.
 - Opening the Hanifl Family Wild Woods, a nature-based play area that will add an exciting new amenity to the zoo-going experience.
 - Pursuing future opportunities for new and improved exhibits by requesting bonding support to complete Heart of the Zoo 2.

Status: Since convening a Zoo-wide task force in November 2014 to create a seasonal marketing campaign through the end of the fiscal year, adjusted monthly attendance goals have been reached and exceeded. Construction and animal permitting is on track for a Memorial Weekend re-opening of Discovery Bay and a July opening of Hanifl Family Wild Woods. The Zoo’s current request for bonding is under consideration.



3. Diversifying the Zoo's revenue mix by adding new amenities to the guest experience.

Status: The Zoo is negotiating with a private vendor to open an Adventure Park in the summer of 2016 that will include zip lines and treetop ropes courses on Zoo grounds. Located just outside park gates, the Adventure Park will create a new revenue stream for the Zoo and reach new audiences seeking physically challenging outdoor experiences. The Zoo is also expanding educational offerings, piloting pony camps and pony parties in the summer of 2015 at the Wells Fargo Family Farm—programs that are already filled to 85% capacity.

4. Investing in technology that meets and exceeds expectations of 21st century zoo guests and will:

- Improve Zoo visit experiences by offering online ticketing, a process not currently available.
- Increase internal efficiencies by integrating all customer data into one system.
- Allow for high-level, data-driven marketing and fundraising.

Status: The Minnesota Zoo has begun implementing a state-of-the-art customer relationship management system, Tessitura Network, that is expected to be fully implemented in the fall of 2015.

5. Reorganizing the External Relations division of the Zoo to promote attendance growth.

Status: The membership program is now part of the Zoo marketing and communications department, which creates a cohesive program of guest development from daily admissions through long-term membership and beyond.

Expenses:

The Zoo is simultaneously managing its operating expenses. Over the past 18 months, the Zoo has:

1. During FY14, realigned and reduced expenses to accommodate increasing costs, including significant compensation and utility cost increases.

Status: Complete.

2. In the FY15 budget, reduced and reallocated expenses by \$400,000 from prior year to accommodate increasing expenses in certain areas such as staff compensation, utilities and animal food/supplies.

Status: Complete.

3. Further reduced expenses by \$500,000 in the first months of FY15 through staff layoffs, non-salary cost cuts, holding vacancies open, and deferring site maintenance.

Status: Complete.

4. Continued to look for opportunities to reduce expenses and increase revenue by conducting functional assessments and implementing process improvement programs for key business areas.

Status: Since December 2014, the Zoo has conducted functional assessments of its events and volunteer programs and an evaluation of its accounting processes.

Short-term Results:

The Zoo's current activities are in fact stabilizing the current financial situation and, with the deficiency appropriation, the Zoo is now projecting a balanced budget for FY15.

However, these short-term solutions will not solve the overall structural issues with the Zoo's budget and revenue mix:

- Zoo operating expenses are largely fixed and will likely continue to rise.
- Admission pricing is now at the market's ceiling and prices cannot be increased without an impact on revenues.
- Current goals for fundraising growth are aggressive. Additional increased fundraising is not feasible.
- Restricted State funding such as through the Arts and Cultural Heritage Fund or the Environment and Natural Resources Trust Fund supports a number of special programs but cannot be used for core Zoo operations.
- The currently proportionally small size of the Zoo's general fund support does not allow the Zoo to manage the variability in attendance and related earned income.

The Zoo's FY16/FY17 general fund increased request of \$8.25 million/year—\$2.825 million/year above the Zoo's last appropriation—is essential for the Zoo to address:

- Past and future staff compensation increases.
- Inflation.
- Needed Zoo investments, many deferred for years.

An appropriation at the requested level will allow the Zoo to keep operating at current levels given increased costs and realistic attendance projections.

What We Are Doing: Long-Term

In October 2014, with its financial situation front and center, the boards of the Minnesota Zoo and Minnesota Zoo Foundation unanimously approved a visionary strategic plan that explicitly identifies the need for a sustainable business model as one of its three goals. This goal accompanies two other goals that, together, will help the Minnesota Zoo fulfill its mission to connect people, animals and the natural world **to save wildlife**.



The three interconnected tenets of the Minnesota Zoo's new strategic plan are:

- Develop and implement a sustainable business model for a conservation-focused, 21st century Zoo.
- Position the Zoo as a recognized conservation organization whose purpose is to save wildlife.
- Transform the Zoo into a conservation destination that delivers extraordinary guest experiences.

Embedded in each goal are specific strategic objectives, each of which holds staff leadership accountable to measurable outcomes. Implementing these goals and objectives over the next five years will elevate the Zoo’s responsibility to act on behalf of wild animals, and leverage the enormous power of the 1.2 million visitors and students who visit the Zoo every year.

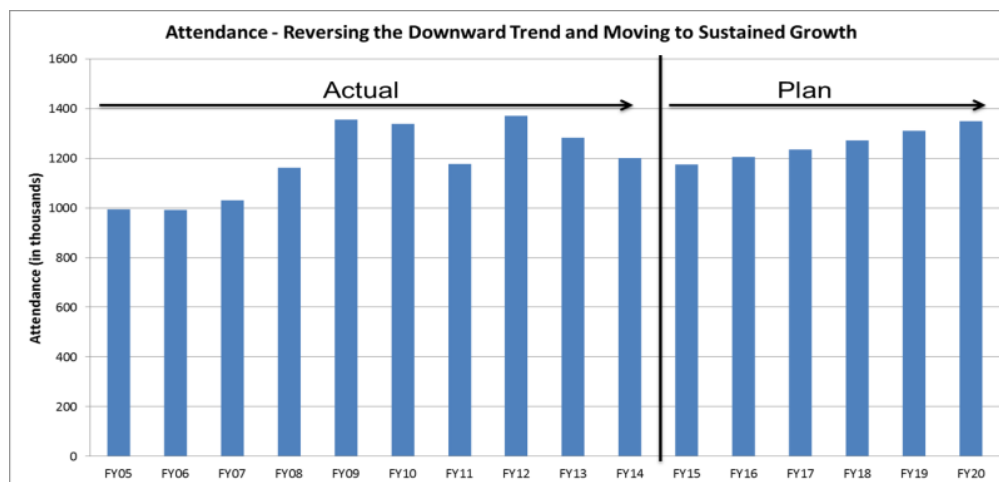
Revenue:

With respect to the first goal regarding *financial sustainability*, there are specific objectives related to:

- Attendance growth and related earned income growth.
- Growth in State investment through the general fund, the Arts and Cultural Heritage Fund, and capital investment through bonding.
- Increased contributed income from the private sector.

The financial analysis that accompanies the strategic plan and its objectives, includes an analysis and projections regarding Zoo attendance—the Zoo’s largest source of earned revenue—and the relationship between attendance and new exhibits and attractions.

As shown on the chart below, the Zoo is projecting modest attendance growth over the next five years.



The Zoo believes that this projected attendance growth is necessary to increase earned revenue but is also realistic, taking into account the opening of new exhibits—this spring’s reopening of Discovery Bay as a home for endangered Hawaiian Monk Seals, an upcoming snow monkey and meerkat exhibit, and a long-term plan for a major African Savanna exhibit. Nevertheless, the Zoo will not base budgets on unrealistic attendance projections.

The Zoo will also aggressively pursue additional needed earned revenues in the coming years with a goal of securing approximately \$100,000 from new earned revenue streams each year, for a total of \$500 thousand in new earned revenue by the end of the 5-year period.

These attendance and related revenue projections complement goals to significantly increase contributed income for annual operating by 27% over the next five years and implement a major capital campaign for the Africa Savanna exhibit planned to open in 2021

Expenses:

The strategic plan’s financial analysis also includes specific assumptions and projections related to expenses:

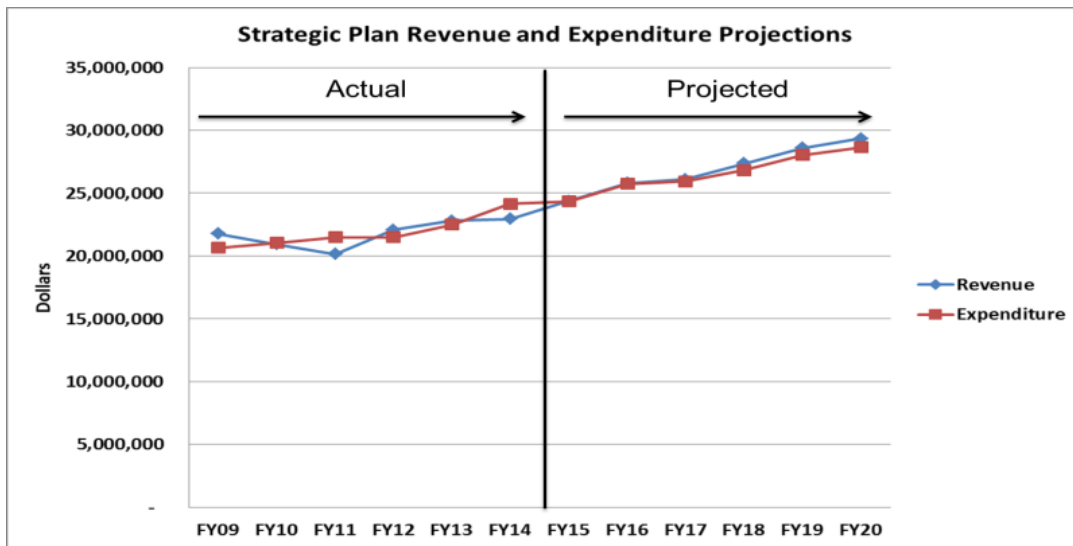
- Expense projections reflect already-enacted budget and staffing reductions.
- Compensation is assumed to grow 2-3% per year to reflect State collective bargaining agreements.
- Inflation is assumed at 2% for utilities, goods, and services.
- Key investments are needed related to: business analytics and customer segmentation; marketing, capital investments: restoration and growth of site maintenance dollars, fleet costs, growth in field conservation programs and staffing, and implementation of a much-needed technology infrastructure plan.

With this in mind, budgets will be managed based upon actual revenues over the course of the next few years and adjusted as necessary.

Long-term Results:

The Minnesota Zoo’s strategic plan and its financial goals are premised upon realigning the State’s general fund support of the Zoo to cover approximately 1/3 of its annual operating costs. Significant bonding support is also built into financial projections.

With capital and operating investment from the State as suggested, the Zoo projects that the successful implementation of this new strategic plan will result in a fiscally-sound zoo:



Conclusion

The Minnesota Zoo is uniquely poised for long-term success thanks to our ability to create extraordinary experiences and lifelong memories for Zoo guests, our role as the State’s largest environmental education provider, and our expertise in Minnesota-based field conservation efforts.

Our ability to meet guest expectations and impact efforts to save wildlife begins with our ability to operate a high quality, accessible Zoo. We must fix our long-term structural deficit by continuing to control expenses, increase revenues *and* by recalibrating our relationship with the State of Minnesota. The State's investment in the Zoo through the \$1.35 million deficiency appropriation is the first step toward this end. On behalf of the Zoo staff, boards of directors, and guests, thank you for this support and for the opportunity to report on our progress.

Respectfully submitted,

Peter E. Maritz
Chair, Minnesota Zoological Board

Lee C. Ehmke
Director/President, Minnesota Zoo