



Final Report to the Minnesota State Legislature | December, 2015

Purpose

The Minnesota Zoological Board submits this 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.

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.

In the fall of 2014, 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.

With these facts in hand, the Zoo requested a relatively small additional investment by the State through a deficiency appropriation that would stabilize the Zoo's finances for the remainder of the current fiscal year and an increased general fund appropriation that would help secure the Zoo's future as one of Minnesota's premier education, conservation and recreation destinations.

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

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

In addition, the Zoo's FY15 general fund appropriation had fallen to only 22% of its \$25 million budget, well below the 34% national average for public operating support for accredited zoos.

With the support of the Legislature and the Governor during the 2015 legislative session, the Zoo received a deficiency appropriation that closed the gap between expenses and revenue for the FY15. Thanks to this additional investment from the State, management actions that cut \$500 thousand in expenses, and strong spring attendance, the Zoo ended FY15 on firm financial footing. Operating revenue for FY15 exceeded expenditures by 2.4%.

For the FY16-17 biennium, the Zoo also received an increase in its base general fund appropriation that brought the State's investment in the Minnesota Zoo back to par with the national average, which ensures the Zoo's ability to withstand attendance and earned revenue fluctuations that result from factors like sustained weather extremes and a volatile economy.

Minnesota Zoo Strategic Plan—Addressing Long-Term Success and Financial Stability

In October, 2014, the boards of directors of the Minnesota Zoo and Minnesota Zoo Foundation unanimously adopted an inspiring strategic plan that addresses the continued success and financial stability of the Zoo. The plan identifies three primary goals for the Zoo in the coming year:

- Develop and implement a sustainable business model for a 21st century, conservation-focused 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.

Each of these goals includes specific strategic objectives, many of which directly relate to the long-term financial stability of the Zoo and are highlighted below.



Revenue Report

The Minnesota Zoo operates as a public-private partnership, with diverse revenue sources that include:

- Earned revenue from attendance, membership and related programs and services.
- General fund appropriations along with other restricted public funds such support from the Clean Water, Land and Legacy Fund and the Environment and Natural Resources Trust Fund.
- Contributed revenue from individual, corporate and foundation donors.

Ensuring that our revenue sources are robust, balanced and diverse is critical to the Zoo’s long-term financial health. The strategic plan includes several specific long term objectives addressing this issue:

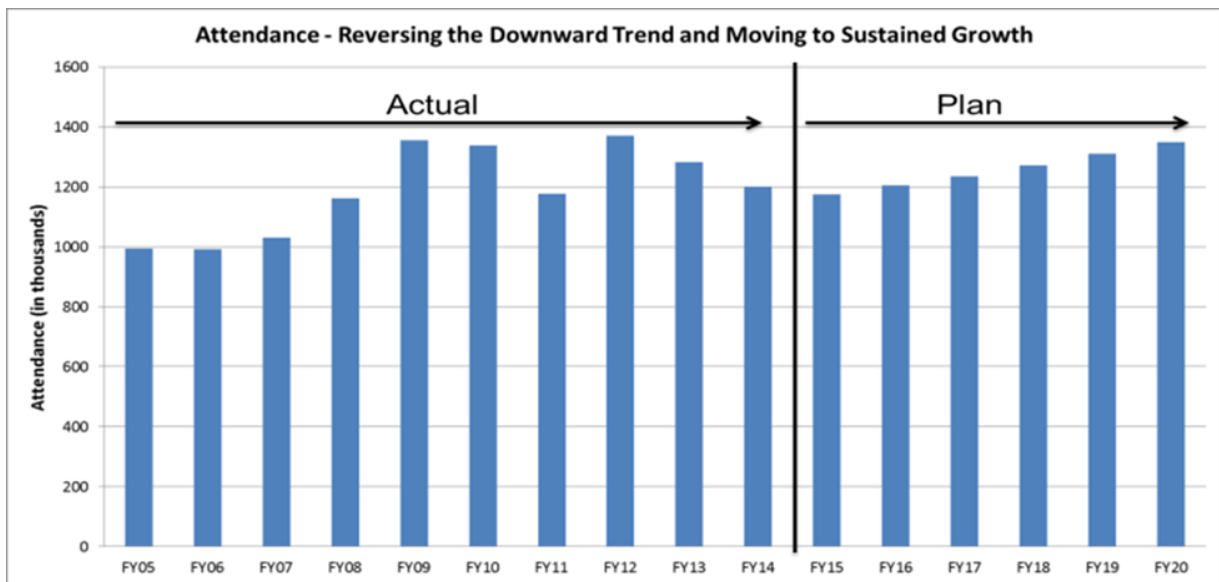
1. Increase Zoo attendance to 1.4 million visits by FY20.
2. Create and execute a plan to increase State funding for the fulfillment of the Zoo’s operating and capital needs in FY15 and beyond.
3. Increase total contributed income from the Zoo Foundation to the Zoo by 50% from FY14 to FY20 by:
 - Increasing operating support by 27% over five years;
 - Increasing conservation support by 41% over five years; and
 - Raising \$3 million for the Heart of the Zoo 2/Monkeys, Meerkats & More exhibit and \$16 million for a major African Savanna exhibit.
4. Generate at least \$100,000 in new earned revenue annually beginning in FY16.

These long-term goals have been incorporated into the Zoo’s FY16 annual plan. And to date, we can report significant and meaningful progress toward these strategic objectives.

1. Increasing Zoo attendance

Status: The Zoo expects to complete the fiscal year at or above budgeted attendance and membership goals.

With over 50% of the Zoo’s operating budget coming from earned revenues, stabilizing and growing annual attendance is critical for our long-term success. The strategic plan calls for specific increases in attendance for the next few years:



This year, the Zoo created realistic and achievable goals that tie directly to our budget:

- Increase attendance to 1.23 million guests.
- Increase household memberships to 41,200.

At the end of the first quarter, attendance was slightly below budgeted goals. The second quarter has been strong so far with attendance tracking to exceed budgeted goals by nearly 10%.

Membership exceeded its budgeted goal by 4.6% in the first quarter and remains on track. With a more balanced revenue mix this fiscal year, including a larger investment from the State, the Zoo is confident that it will be able to address attendance volatility without compromising guest safety, animal welfare or the overall zoo experience. With investment in a new customer relationship management system, we expect to create more effective customized marketing strategies that will draw new and more guests to the Minnesota Zoo throughout the entire year, further mitigating seasonal attendance vulnerability.

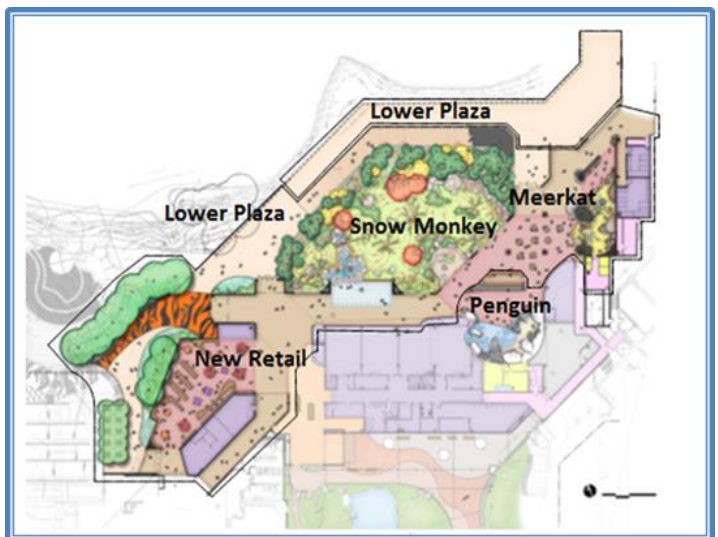
2. Increasing State funding to meet operating and capital needs

Status: The Zoo has received significant additional general fund operating support and is now requesting capital investment funds to meet its needs for new project and asset preservation support.

The Zoo is grateful for the additional financial support received from the Legislature during 2015. This increase allows the Zoo to plan and budget with confidence that it can manage its more volatile earned revenue streams.

However, the Zoo is also dependent upon state bonding support to meet its capital investment needs. The Zoo is seeking \$17.78 million in state bond funds in 2016 to complete the Heart of the Zoo 2/Monkeys, Meerkats and More project. The project will complete the transformation of the Zoo's main entrance by:

- Rejuvenating the Zoo's popular snow monkey exhibit that has seen decades of wear, replacing the stark and deteriorating existing enclosure with a naturalistic environment that meets the highest standards of animal care.
- Adding a new engaging meerkat exhibit near the Zoo's main entrance, complementing the popular penguin exhibit and a renewed snow monkey exhibit.
- Improving and expanding basic guest services inside the main entrance of the Minnesota Zoo—lobby, restroom and retail space—to meet the needs and expectations of Zoo's guests.



This project will enhance the Zoo's the long-term financial stability by increasing attendance and revenues. With over 50% of the Zoo's operating budget coming from earned income comprised primarily of admissions, memberships, and commissions from our gift store and food service partners, increasing Zoo attendance, the length of guest visits, and per capita visitor spending directly increases this earned income.

Past experience predicts that major new animal exhibits such as those included in this project increase Zoo attendance. Additionally, through the relocation and expansion of retail space near the main Zoo entrance, we estimate a 10% increase in retail commissions—approximately \$200,000 over six years.

3. Increasing Zoo Foundation support

Status: The Minnesota Zoo Foundation is on track to achieve its goal in increasing operating support to the Zoo \$2.29 million in FY16.

The Zoo's public-private partnership is exemplified in the work of the Minnesota Zoo Foundation, the 501(c)(3) charitable organization that exists to provide financial support for the Zoo and its conservation efforts. In the current strategic plan, the Foundation has accepted the aggressive challenge to increase its total contributed income to the Zoo by 50% between FY14 and FY20.

The Foundation is not only meeting its operating support goals but has plans underway to provide significant private support for the Heart of the Zoo 2/Monkeys, Meerkats & More project as well as for the Zoo's various conservation programs.

4. Increasing new earned revenues.

Status: The Zoo is on schedule and on budget to open its first new business initiative under the strategic plan in late spring 2016.

A task force made up of Zoo leadership and board members is researching and pursuing opportunities for the Zoo to create new offerings that generate revenue for the Zoo. Under consideration are those types of activities that will:

- Align with the Zoo's mission to connect people, animals and the natural world to save wildlife.
- Leverage under-utilized assets of the Zoo.
- Compete well in this market.
- Net a minimum of \$25,000 annually.

Following these criteria, the Zoo will open Treetop Adventure Park this spring, an aerial obstacle course featuring zip lines and natural challenge games nestled in the trees and around the pond just outside the Zoo's main entrance. A children's and adult's course will each offer a new opportunity for Zoo guests, with particular appeal to teens and young adults. This project is being constructed and will be operated by an outside vendor, providing a new stream of revenue while limiting the Zoo's financial risk.

Future ideas under consideration include underwater diving experiences in the Zoo's marine exhibits, a conservation-focused performing arts festival, and an indoor/outdoor winter festival.

Additional Capital Investment Strategy

Status: The Zoo continues to explore new exhibits and attractions that will increase attendance and earned income.

Embedded in the Zoo's strategic plan is another goal: *transform the Zoo into a conservation destination that delivers extraordinary guest experiences.*

While member loyalty and retention is at the heart of our financial stability, the Zoo continues to drive guest attendance by refreshing or creating new exhibits and attractions.

In 2015, a refurbished Discovery Bay reopened as the only home in North America to feature endangered Hawaiian monk seals.



Summer 2015 also saw the opening of the privately-funded Hanifl Family Wild Woods, a nature-based play area that encourages children to unplug and play outside.

Each of these permanent improvements adds to the long-term, everyday value of a Zoo visit.

In summer 2016, the Zoo will offer a temporary summer exhibit, *Dinos!* Previous success with this exhibit, children's never-ending fascination with dinosaurs, and a recent addition to the "Jurassic Park" movie franchise leads us to believe this will once again be a popular offering and a strong attendance driver.

As noted above, the Zoo is requesting \$17.8 million in 2016 capital investment funds to complete its Heart of the Zoo 2 project. With bonding funding in 2016, this project would open in summer 2017.

Long-term requests for capital investment support will help fund a major African Savanna exhibit.

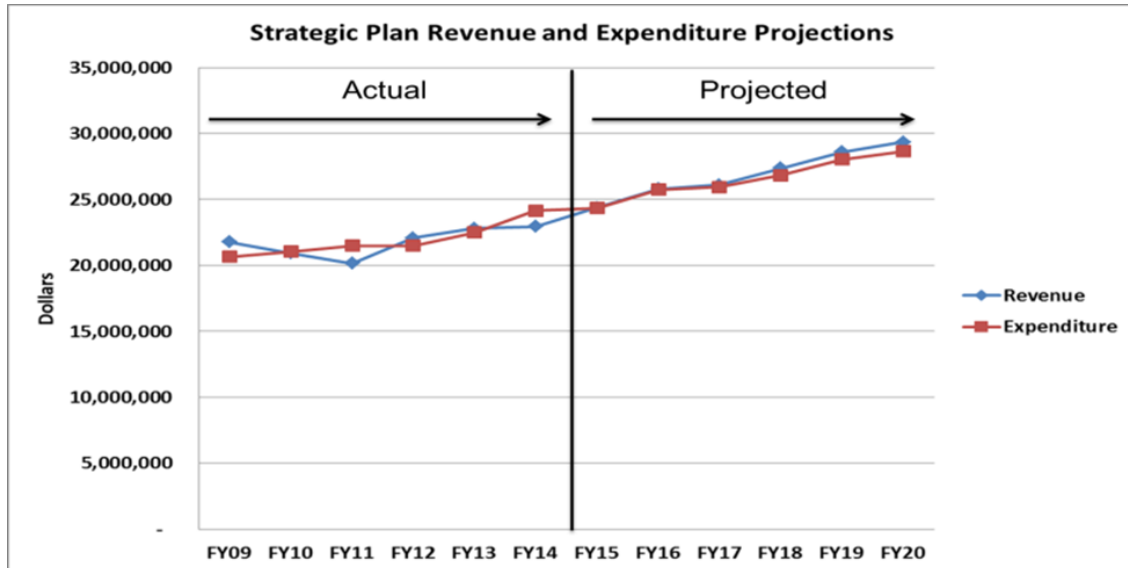
Expense Report

In addition to addressing revenue, the Zoo's strategic plan correspondingly established an objective addressing Zoo expenses: *reduce costs by 4% in FY15 and conduct two area program reviews annually through FY19.*

In creating this objective, the strategic plan took into account the following assumptions:

- Compensation was assumed to grow 2-3% per year to reflect State collective bargaining agreements. (Note: The actual agreement of 2.5% growth is within this projected range.)
- Inflation was assumed at 2% for utilities, goods, and services.
- Key investments are needed in a number of areas: business analytics and customer segmentation; marketing and branding campaign; restoration and growth of site maintenance dollars; fleet maintenance; growth in field conservation programs and staffing; and implementation of a much-needed technology infrastructure plan.

These expenditures and revenue projections are expected to achieve balanced budgets going forward:



Status: Expense reductions for FY15 are complete and functional assessments to identify future savings are underway.

The Zoo’s initial FY15 budget included \$400,000 in expense reallocations and reductions from the prior year to accommodate increased expenses. Then, in the first quarter of FY15, the Zoo made an additional \$500,000 in direct expense reductions through staff layoffs, holding vacancies open, deferring site maintenance and other non-salary cost reductions.

Many of these cost savings were continued in the FY16 budget.

The Zoo continues to look for opportunities to reduce expenses (and increase revenue) by conducting functional assessments for key business areas. Since December 2014, the Zoo has conducted functional assessments of its events and volunteer programs and the finance office related to accounting processes. Additional functional assessments that are currently underway include onsite fundraising, IT investment and staffing, policies and procedures, and external relations staffing.

Conclusion

The State’s \$1.35 million deficiency appropriation in 2015 came at a serious moment in the Minnesota Zoo’s history. The funding bridged a critical gap and allowed Zoo leadership and board members to address the long-term structural deficit by controlling expenses, increasing revenue, and recalibrating our relationship with the State of Minnesota. The 2016-2017 biennial appropriation to the Zoo increased the State’s ongoing investment in our work and further enhanced our stability.

The Zoo is now positioned for long-term growth, which will allow us to thrive in our role as an economic engine, a conservation leader, an educational partner, and a fun and inspiring family recreation destination.

On behalf of the Zoo staff, board of directors, and guests, thank you for your support and for the opportunity to report on our progress.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Peter E. Maritz".

Peter E. Maritz
Chair, Minnesota Zoological Garden Board of Directors

A handwritten signature in black ink, appearing to read "Kevin Willis".

Kevin Willis
Interim Director and President, Minnesota Zoo