

**Hamilton County Tax Levy Review Committee
Zoo Levy Subcommittee
138 East Court Street, Room 603
Cincinnati, Ohio 45202**

June 12, 2023

Hamilton County Board of Commissioners
Commissioner Alicia Reece, President
Commissioner Denise Driehaus, Vice-President
Commissioner Stephanie Summerow Dumas
138 East Court Street Room 603
Cincinnati, Ohio 45202

Re: Proposed Cincinnati Zoo and Botanical Garden Levy

Dear Commissioners:

By letter dated November 21, 2022, the Cincinnati Zoo and Botanical Garden (“Zoo”) asked that the Board of Commissioners (“Board”) “place an issue on the November 7, 2023, General Election ballot to continue taxpayer support of the Zoo upon expiration of the levy approved by voters in 2018 [and] include an inflationary increase dating back to our last increase in 2008.” Hamilton County Tax Levy Committee (“TLRC”) Chairperson Gwen McFarlin formed a subcommittee—including herself and fellow Committee members Mark Quarry and Robert Furnier—to review the request and recommend whether to honor it. While the Zoo subcommittee believes that the Zoo levy should be renewed with increased funding, the subcommittee defers to the TLRC as to what that increase, if any, should be if the full Committee agrees that a renewal is appropriate.

The Review Process

Upon receiving the Zoo’s request, the Board retained Howard, Wershbae and Co. (“Consultant”), led by James Horkey, to undertake a performance review of the Zoo. Among other things, the Consultant was tasked to evaluate the Zoo’s current operating efficiency, assess its compliance with its current contract with Hamilton County, suggest contract provisions if the County and Zoo if the levy is renewed, and recommend costs savings and enhancements. The Consultant issued its final report and recommendations on May 8, 2023.

The Consultant’s excellent report has been invaluable in the Zoo subcommittee’s review of the Zoo’s request. Rather than summarize all its findings here, the subcommittee invites the Board to consult the report for more detailed information about the Consultant’s conclusions. The subcommittee’s report will only highlight the key findings and recommendations that support the TLRC’s own recommendations to the Board.

In reaching its recommendations, the subcommittee and the TLRC collectively will have met at least nine times between February 13, 2023, to June 12, 2023, to hear from the Consultant, the Zoo, and the public; to tour the Zoo itself; and to deliberate over the subcommittee's and TLRC's recommendations. After reviewing the Consultant's report, presentations from the Consultant and the Zoo, and hearing from the public, the Zoo subcommittee unanimously agreed that the Zoo levy should be renewed with an increase. Subcommittee members, however, did not develop a consensus as to the scope of the increase.

The subcommittee decided to ask the TLRC to consider three recommendations for the Board:

1. Honor the Zoo's specific request, placing the levy renewal on the November ballot with an inflationary increase calculated beginning 2009 (15-year inflation period);
2. Renewal of the levy with an inflationary increase calculated beginning 2019 (5-year inflation period); or
3. Renewal of the levy at current levels.

The Current Levy

The Zoo has received 0.46 mills in property tax revenues since 2008. Under their current contract the Zoo receives \$7,000,000 annually for qualifying area expenditures. Qualifying area expenditure categories are animal operations and health, environmental services, maintenance and horticulture. The below chart shows actual levy revenues and expenses over the current period (2023 as budgeted).

	Year 1	Year 2	Year 3	Year 4	Year 5
ACTUAL/PROJECTED	2019 Act	2020 Act	2021 Act	2022 Act	2023 Bdg
Beginning carryover	1,918,453	1,789,569	1,917,303	2,112,245	2,394,783
REVENUES (Total)	7,061,076	7,229,501	7,295,892	7,392,158	7,303,107
Tax Levy	7,061,076	7,229,501	7,295,892	7,392,158	7,303,107
EXPENDITURES (Total)	7,189,960	7,101,768	7,100,949	7,109,621	7,241,099
Zoological Society	7,000,000	7,000,000	7,000,000	7,000,000	7,000,000
Auditor and Treasurer Fees	86,989	90,672	90,070	96,431	100,000
Indirect Costs	5,603	6,711	6,271	6,225	6,929
Board of Elections	92,951	-	-	-	-
Administrative	4,417	4,385	4,609	6,965	9,170
Performance Review	-	-	-	-	125,000
Ending Carryover	1,789,569	1,917,303	2,112,245	2,394,783	2,456,791
Less Year-End Encumbrances					
Available Cash Balance					

The Zoo Request

The Zoo is asking the Board to place the levy renewal on the November ballot with an increase equal to what it would have received with inflation increases in the 15 years from 2008 through 2023. The Zoo has not received a levy millage increase since 2008. Here is a summary of the options the TLRC reviewed for the Zoo. Options included no inflation as well as a 5-, 10-, or 15-year inflationary increase. These calculations were done in line with the TLRC inflation policy calculation, last amended in 2009.

Levy	Actual Revenue 1st year of levy	Revenue with 5, 10 or 15 year Inflation	5-year levy total
Zoo Levy - no inflation	7,061,076	7,322,842	36,614,210
Zoo Levy - 5 years of inflation 2019 base	7,061,076	7,958,928	39,794,638
Zoo Levy - 10 years of inflation 2014 base	6,832,084	8,148,452	40,742,261
Zoo Levy - 15 years of inflation 2009 base	7,564,297	9,821,499	49,107,494

Placing the levy on the ballot without an increase would force the Zoo to find other revenue sources to deal with the impact of rising expenses from inflation and other forces described further below.

Under the Zoo's contract for the ending 5-year cycle, levy proceeds are exclusively designated for operating expenses in specific categories, dubbed "Qualifying Area Expenditures": animal operations and health, environmental services, horticulture, and maintenance. Over the 2018-2022 period, these expenditures have been consistent, except for 2021 when the pandemic drove down attendance:

Also, the consultants noted the contract under the contractual Hamilton County Resident Program the CZ&BG is required to provide half-priced admission to residents for one (1) full weekday, and two (2) part week days (or at the Zoo's option, two (2) part weekend days after 4p.m. each year between the dates of May 15 and September 15. It was noted that this program was stopped in 2020 and has not been reinitiated as required by the agreement.

TLRC Zoo Levy Report

June 9, 2023

Page 4

Qualifying Area Expenditures Paid By Levy vs. Internally Funded						
Description	Fiscal 2018	Fiscal 2019	Fiscal 2020	Fiscal 2021	Fiscal 2022	Five Year Average
Animal Operations & Health	\$ 9,942,134	\$ 10,798,160	\$ 11,291,193	\$ 9,515,309	\$ 10,568,292	\$ 10,423,018
Environmental Services	823,220	890,700	967,300	617,346	883,357	836,385
Maintenance	5,482,588	5,894,096	6,037,088	4,373,722	5,069,702	5,371,439
Horticulture	1,326,780	1,394,066	1,521,894	1,086,034	1,543,337	1,374,422
Total Qualifying Expenditures	17,574,722	18,977,022	19,817,475	15,592,411	18,064,688	18,005,264
Levy Funds Provided	6,550,000	6,662,500	7,000,000	7,000,000	7,000,000	6,842,500
Internally Funded	11,024,722	12,314,522	12,817,475	8,592,411	11,064,688	11,162,764
	<u>\$ 17,574,722</u>	<u>\$ 18,977,022</u>	<u>\$ 19,817,475</u>	<u>\$ 15,592,411</u>	<u>\$ 18,064,688</u>	<u>\$ 18,005,264</u>
Levy Funds Provided	37.3%	35.1%	35.3%	44.9%	38.7%	38.0%
Internally Funded by CZ&BG	62.7%	64.9%	64.7%	55.1%	61.3%	62.0%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
Source: Zoo Management and County Records						

Several potentially escalating costs are central to the Zoo’s justification for a significant increase in levy funding.

First, salaries, wages and benefits account for 76% of all operating expenses. The Zoo’s most recent presentation to the TLRC notes the dramatic rise in salaries and hourly wages in the 15 years since its last levy increase. Moreover, since the pandemic, not only are employee-related expenses most vulnerable to present inflation, but also adversely impacted by the declining job market.

Next, the Zoo is 150 years old with 40% of its facilities more than 80 years old, including three buildings over 115 years old. While levy support helps fund routine maintenance, major maintenance projects are outside the levy contract. The Zoo must fund these projects from other revenue sources—admissions, capital campaign funds, regular fundraising (Zoofari and sponsorships), gifts designated for specific uses, unrestricted gifts, and grants. With over 60% of levy-qualified operating expenses paid by these alternative funding sources, such sources will have to be increased and redirected to maintain the Zoo’s aging infrastructure. The Consultant’s report acknowledges this risk to the Zoo’s financial stability, noting that its “annual budget for major maintenance projects and reinvestment which has increased from \$2.5 million in 2018 to \$5 million today will continue to rise.” (Report at 5.)

Finally, the Zoo is accredited by the Association of Zoos and Aquariums (“AZA”). Thus, the Zoo must comply not only with United States Department of Agriculture regulations, but also with AZA animal care, management and containment requirements. Such compliance, in turn, is driving up operating expenses. The Consultant’s report highlights these expenses as an area of future concern:

The trend toward increases in Federal, State, Municipal, AZA regulations poses a risk that is also worth mentioning. Expansion of the regulatory strictures with which the CZ&BG must comply will likely continue. Conformity to such regulations will potentially entail even more increases in the CZ&BG's operating expenditures. (Report at 83.)

According to the Zoo, the expenses that the levy helps cover are up 79% since 2008, when the Zoo levy was last increased. The Zoo points out that levy funding used to cover 41% of operational costs and currently covers only 17% and that this downward trend is detrimental to its long-term viability. Saddled with the potential financial challenges described above, the Zoo maintains that a levy increase at the levels requested is essential to keeping the Zoo a world-class zoo.

The Zoo Subcommittee's Analysis

The Zoo subcommittee concurs with the Consultant's judgment that the Zoo has been a good steward of the County levy funds. Indeed, despite a global pandemic, the Zoo has thrived over the present levy cycle. The Consultant highlights these successes in its report:

As the current levy cycle comes to an end, the CZ&BG has achieved success, seemingly at every level of operations. Operating profits are strong, fundraising efforts have been successful, the CZ&BG has a healthy balance sheet, endowment funds have increased to historic highs, and they are on track to complete a \$160 million expansion, without incurring additional long-term debt. (Report at 83.)

During the recent levy cycle, the CZ&BG repaid \$5.1 million of interest-bearing debt and are on pace to be debt free in 2026. The CZ&BG does not appear to have long-term borrowing needs and has \$5.5 million available on an open line of credit in the event short-term borrowing needs arise. (Report at 27.)

If the purpose of the Zoo levy is, as with other levies, to provide last-dollar support then its management and financial successes would not warrant a levy increase. Over the last fifteen years, as the Zoo's levy-qualified operating expenses ballooned and levy support remained relatively stagnant, the Zoo has weathered every economic downturn and financial crisis through great effort and ingenuity, while expanding its role in the community, educating the public, and building one of the best—if not the best—zoos in America.

And, in fact, the Consultant projects that the Zoo can weather the nation's present economic challenges, including rising inflation, over the next five-year levy cycle without a levy increase:

Finally, through the preparation of a hypothetical forecast, we address the ability of the CZ&BG to meet its community need without ongoing increases in the Tax Levy. To address this task, we focused on recent historical results, Management's forecast for 2024 and the use of what we believe are conservative assumptions. The result of our analysis indicates that even if operating results decrease from current levels and the current levy is renewed without an increase, cash flows are expected to remain positive. This is an indication the current financial outlook does not support an increase to the levy. (Report at 6.)

Despite the Consultant's conclusion, the Zoo subcommittee feels that at least a levy inflation increase calculated under the TLRC's policy guidelines is warranted after fifteen years without one. Before 2008, the Board and Hamilton County voters supported such increases as a matter of course, refusing them only as an exception rather than the rule. Despite a reversal of this trend since 2008, the Board and the voters have approved increases for two of the last three levies and the Zoo subcommittee feels an increase is justified for the Zoo because of the economic challenges described above.

While not expressing any opinion as to whether the Zoo's request should be approved, or whether a lesser increase is defensible, the Consultant recommends that the Board reconsider whether the Zoo should be forced to consider the County as "the last payer of support":

The first provision of the levy contract for reconsideration is the condition that Hamilton County funding be treated as "the payer of last resort." The term Payer of Last Resort implies that CZ&BG must first extinguish all other sources of funding before using the levy funds. . .The CZ&BG have generally shown that they are good stewards of the funds provided by Hamilton County. In a sense they have acted as partners, versus merely an organization in need of funding to fulfil their mission. The ultimate goal is for the community of Hamilton County to have a high-quality zoo and botanical garden, in the most financially responsible way. Given the scope and nature of the operations of CZ&BG, this is not a viable business model under which it should operate.

The Zoo levy is unlike the other county levies in a key respect. Other levies serve Hamilton County citizens in great need: the Childrens Services Levy, the Developmental Disabilities Services Levy, Family Services and Treatment Levy, Indigent Care Levy, Mental Health Levy, and Senior Services Levy. Hamilton County voters have rarely balked at helping other members of their community in times of need through tax dollars, a laudable and essential goal of our levies.

The Zoo levy is different. It is an investment in our community, serving all Hamilton County residents. The Zoo quite rightly touts itself as a world-class attraction, elevating the County's

national reputation while being “foundational to the Cincinnati region’s economic and societal well-being,” according to a May 2023 University of Cincinnati economic impact study. With an average annual attendance of over 1.7 million visitors, nearly two-thirds of whom come from outside the county, the Zoo attracts nearly as many people as Cincinnati Bengals and Reds home games combined.

The UC study estimates that the Zoo had an economic Impact of \$678.9 million (\$169.7 million each year) on our community between 2020 and 2023. During this period, the Zoo generated \$34 million in state and local government taxes. Its operations supported total employment of 8,766 individuals and \$295.6 million in wages. Most importantly, on average, for every \$1 of tax levy funding the Zoo received, it generated \$8.14 in economic benefit within Hamilton County due to the spending of nonlocal visitors.

But regardless of whether the TLRC recommends, and the Board approves, the Zoo subcommittee believes that the Zoo should offer more discounts to Hamilton County residents.

Based on Cincinnati Zoo data, an annual average of 64.3% of visitors were nonlocal to Hamilton County from FY2020-2023. While having 864,041 visitors to the Zoo from outside the county is an indirect economic benefit for our citizens, Hamilton County residents should have a direct benefit of discounted pricing year-round. The Zoo has pledged such discounts if the levy is renewed at the levels requested, since the additional tax revenue would support them. A formal plan for these Hamilton County resident discounts has not been presented to the TLRC at the time of this reporting. The TLRC requests that any increase in levy revenues be accompanied by a formal plan from the Zoo to the Commissioners outlining how this benefit will directly benefit Hamilton County residents, as a thank you for their contributions to the Zoo through their property taxes. This plan should be a part of the Commissioners’ review of the levy and presented in advance of the levy ballot vote.

As it has in the past, the Zoo asks the Board to allow the voters to decide whether to invest in the Zoo and, in so doing, invest in the community. This request comes at a time of an ever-growing tax burden on our citizens, along with mounting, unmet needs of many of our most vulnerable neighbors. Consequently, the Zoo subcommittee has deferred to the full TLRC on whether to recommend that the Board consider the Zoo’s request or some lesser alternative. The purpose of this report is to show that a case can be made for both.

Respectfully submitted,



Robert Furnier
Chair, TLRC Zoo Subcommittee

ZOO LEVY MILLAGE OPTIONS

Current Levy	Revenue	\$100k Home	
0.46	\$7,322,842	9.01	0.00
RENEWAL *5 year inflation			
0.46	\$7,322,842	9.01	
0.02	\$438,360	0.70	
0.48	\$7,761,202	9.71	0.70
RENEWAL *15 year inflation			
0.46	\$7,322,842	9.01	
0.11	\$2,410,980	3.85	
0.57	\$9,733,822	12.86	3.85

*millage increase revenues are estimates received by the Auditor

A **Renewal Levy** is voter approved to extend the term and purpose of an expiring levy while considering original property valuations at the time of passage. Renewal mills have a reduction factor annually applied in order to raise the same amount of funding as in the original year of passage. Increases to property valuations do not increase levy revenues, but new construction does add to the base revenue that the levy generates throughout the life of the levy. Any increased millage applied to the renewal levy is calculated as a new levy (see below).

A **New Levy** is voter approved for a new levy purpose and based on current property valuations. Any new levy or increased mill amount added to a renewal levy approved after 2013 is not eligible for the owner occupancy (2.5%) or non-business credit (10%) applied to renewal levies.