HAMILTON COUNTY TAX LEVY REVIEW COMMITTEE
138 East Court Street
Room # 603
Cincinnati, Ohio 45202

June 20, 2013

Hamilton County Board of Commissioners
Hon. Chris Monzel– President
Hon. Greg Hartmann – Vice President
Hon. Todd Portune
138 East Court Street
Room # 603
Cincinnati, Ohio 45202

RE: 2013 Cincinnati Zoo and Botanical Garden Tax Levy Review

Dear Commissioners:

As we have done in the past, Mr. Tom Cooney, chairman of the Hamilton County Tax Levy Review Committee ("TLRC"), established a subcommittee to review the Cincinnati Zoo and Botanical Garden (the "Zoo") tax levy request for the November 2013 ballot. The Zoo has requested a flat-millage renewal of the current levy for the next five years. For the reasons provided below, the TLRC recommends the Commissioners place this renewal levy request on the November 2013 ballot and, assuming the levy is passed by the voters, implement some recommendations with respect to the County's relationship with the Zoo.

We thank Lisa Webb for her continued support and assistance to the TLRC, Craig Maier and Thane Maynard, the Zoo's Board President and Executive Director respectively, the other Zoo Board Members and staff who provided information and input for the levy review process, and Jim Horkey and Greg Friedman of Howard, Wershbale and Co. ("HW&Co."), the consultants engaged by the County to conduct a performance review of the Zoo. These professionals allowed the citizen volunteers of the TLRC to complete an efficient and meaningful review of the Zoo and its levy request for the taxpayers of Hamilton County.

As part of our review, the TLRC did the following:

- Appointed a subcommittee to analyze the Zoo's operations and make a recommendation to the full TLRC regarding the levy request. Because the Zoo levy is the only levy the TLRC is reviewing this year, all of the TLRC members participated on the subcommittee;
- Selected HW&Co. to review the Zoo operations, financial reports and selected contracts;

- Met at the Zoo on March 6, 2013 for a presentation by the Zoo's Board and executive leadership team highlighting the Zoo's strategy, impact in the community and use of past levy funds;
- Received a final report and presentation from HW&Co. on May 29, 2013 which is provided along with this letter;
- Had a presentation from Zoo Board members and its executive leadership team in response to the HW&Co. final report on June 5, 2013; and
- Held a public hearing on June 12, 2013 to receive comments from the public regarding the proposed levy.

The TLRC believes the taxpayers of Hamilton County are quite fortunate to have a world-class Zoo. Unquestionably the Zoo contributes significantly to the economy and vibrancy of the entire Greater Cincinnati region. The UC Economics Center 2012 Economic Impact Study concludes that the Zoo creates 1,700 jobs in the region, a $51.1 million impact in household earnings, income, sales and hotel taxes of $1.74 million and a total economic impact of $143 million per year. The Zoo reportedly brought 287,700 non-local visitors into the region in 2012. In 2007, the Zoo's attendance was 950,000 and by 2012, attendance had increased more than 50% to 1,439,000. While economic conditions may have driven more people to the Zoo as an affordable recreation option, we believe a variety of actions taken by the Zoo – including its new main entrance, new exhibits like Cat Canyon and its exploitation of social media – are more likely the reason for higher attendance levels. The Zoo's outcomes represent a substantial return on the taxpayer investment of levy funds, which ranged between $6.19 and $7.23 million annually over the past five-year levy cycle. The Zoo is to be commended and thanked for its contributions to the region especially in the tough economy of the past several years.

The question for the TLRC, the Commissioners and ultimately the taxpayers of Hamilton County, is what level of public assistance, if any, should the Zoo receive from the Hamilton County taxpayers. While we heard some say we have a world class Zoo because of the Zoo levy, others said because we have a world class Zoo that attracts major private investment we do not need a Zoo levy. Still others said, the region has a world class Zoo for which the region, not just the taxpayers of Hamilton County, should provide public assistance.

Based on all we have heard, the Zoo could not continue to operate at its current high level of effectiveness without the levy funds. While the Zoo levy accounted for more than 40% of the Zoo's operating expenses in 1993, that percentage has steadily declined and now accounts for about 23% of the operating expenses. The Zoo provided a projection showing the percentage will continue to steadily decrease to less than 20% by 2018. There are several reasons for this trend including – increased expenses, declining levy yields and increased revenue from other sources. While the Zoo is to be applauded for the steady reduction in its reliance on levy funds, 23% is still a significant portion of the Zoo's annual operating expenses and removing that funding would undoubtedly have a dramatic impact on the Zoo. Thus, the TLRC does not support elimination or a reduction of the Zoo levy.

While we recommend renewal of the Zoo levy, the TLRC stresses the importance it places on the long-term financial sustainability of the Zoo. The TLRC strongly encourages the Zoo to continue the trend of decreasing reliance on Hamilton County levy funds. The TLRC discussed various options, including requiring the Zoo to establish a task force on this issue, but stopped short of making a formal recommendation. Instead we expect the Zoo to work with the County over the coming levy cycle to explore, and as appropriate, implement opportunities that reduce the Zoo's long-term reliance on Hamilton County taxpayers.

There has been some discussion during our review regarding the County's role as a "funder of last resort" for the Zoo as is set forth in the current levy contract. The TLRC has the task of reviewing several tax levies for the County, including for example, Childrens Services, Developmental Disabilities Services and Mental Health. Some of these other levies involve government entities that provide essential services that in many cases are mandated by federal and state laws to help those most at risk in our community. The agencies administering these programs have few opportunities to generate revenue from their operations and receive minimal private support. The County truly is the funder of last resort in these cases. By contrast, the Zoo receives substantial revenue from earned income on its operations and private donations. When dealing with scarce public funds, the TLRC believes that the emphasis must be first and foremost on providing essential services to at risk populations followed then by quality of life services. We say this only to stress to the Zoo that it must continue to be vigilant and do all that it can to stretch levy dollars, viewing the taxpayers of Hamilton County as the funders of last resort. We also encourage the Zoo to continue to find creative ways to lend its staff, facilities and resources to at risk populations of Hamilton County, especially the children and developmentally disabled, who receive assistance through other levies.

In the past several years the Zoo has incurred substantial debt. Much of the debt was incurred in conjunction with the new Vine Street parking lot and main entrance. This investment has increased the Zoo's ability to easily accommodate large crowds and increase attendance. As the adage goes, "you need to spend money to make money" and the Zoo did just that. The Zoo acknowledges that debt service is a substantial portion of its operating budget and the Zoo has a plan in place to reduce its debt from current levels of about $11 million to a level of approximately $2 million by 2020 and all current indebtedness will be retired by 2025. The TLRC encourages the Zoo to rigorously work that plan to reduce its debt as outlined in its presentation to the TLRC. A condition of the new levy contract should be an annual report to the County on the Zoo's implementation of its debt reduction plan. As HW&Co. pointed out, while the Zoo's revenues have increased considerably over the past levy cycle, its expenses increased somewhat more. Reducing debt cost is expected to reverse this trend and the County should be kept apprised of the Zoo's efforts in this regard.

The Zoo is currently in the midst of a substantial capital campaign focused on building the Africa exhibit. The Africa exhibit will put yet another tremendous feather in our Zoo's cap that should continue to attract visitors and recognition. No levy funds will be used to build the Africa exhibit. However, under the current levy contract, levy funds can be used for maintenance of that exhibit as well as animal care and health, horticulture and utilities. There is no question that the $32 million Africa exhibit will require more future maintenance expenditures than the parking lot it is replacing. Deferred maintenance scenarios continue to challenge many of our institutions. Such challenging situations should be avoided or at least minimized with proper and realistic planning and funding for future maintenance.

In this regard, the Zoo provided a slide in response to the HW&Co. report showing major maintenance expenditures from 2002 through 2012. From 2002 through 2006 the annual major maintenance expenditures were less than $250,000 and in some cases almost zero. From 2007 through 2012, these maintenance expenses jumped significantly to as much as $2.1 million in 2010. The concern of the TLRC is that without a solid plan in place to fund maintenance of the new Africa exhibit as well as the historic structures and infrastructure that currently exists at the Zoo, a day will come when the taxpayers are asked to provide any even larger share of the Zoo's budget to cover maintenance costs. Such a situation can and should be avoided.

It is with this concern in mind that we concur with HW&Co. in recommending that the levy contract be changed to require the Zoo to pay 30% of its qualified area expenditures that includes maintenance costs rather than the current 20%. We recommend the 30% be taken as an average over the five-year levy cycle to account for situations where large maintenance costs are incurred by the Zoo in a given year. Had this change to the contract been in place during the past levy cycle, the Zoo would not have had any issues complying with the provision. The change is intended to incentivize the Zoo to develop and implement a realistic long term maintenance plan and budget with the understanding that the taxpayers will only fund up to 70% of the Zoo's maintenance costs, and perhaps even less in the future. We believe a condition of the levy contract should be that the Zoo present the County with a long term maintenance plan for the entire Zoo including a budget and identification of funding sources and update this plan at least once at the midpoint of the levy cycle.

HW&Co. went so far as to recommend that the Zoo Board be required to designate 30% of future unrestricted funds from estates and gifts to fund major maintenance. While the TLRC agrees that the Zoo's maintenance plan should identify sources of funding for long term maintenance, we do not believe it is within our purview to direct the Zoo precisely how the plan must be funded. What is most important to the TLRC is that the Zoo honor the taxpayers as the funders of last resort and not shoulder future taxpayers with a disproportionate share of maintenance costs due to inadequate planning now. The Zoo is a shining example of ecological and environmental sustainability and financial sustainability is equally important.

The HW&Co. report also highlighted some accounting practices of the Zoo. The Zoo, including its audit committee chairman, responded to these comments. To be clear there is no suggestion of financial irregularity on the part of the Zoo but rather a difference of opinion amongst accountants as to the proper recording of certain costs.

We agree with HW&Co. that the Zoo should follow its adopted accounting policies and standards in the accounting industry. We also appreciate and implore the Zoo to continue having its financial statements independently audited. On this issue, the TLRC is not in a position to nor is it our responsibility to pass judgment on the Zoo's accounting practices.

The HW&Co. report also discussed the solar array agreement the Zoo has with a private party. Under the terms of that agreement the Zoo has some decisions to make in the next levy cycle concerning whether to buy out the contract for $2.4 million in 2018 or pay above market rates for power thereafter. These are future expenses that the Zoo knows about and should plan for. Given that the levy funds can be used by the Zoo to pay for utilities, the TLRC does not believe that the taxpayers should be asked to pay above market rates for electricity from the solar array if the Zoo decides not to exercise its purchase option in 2018. This is not an issue in this levy cycle, but something the Zoo should keep in mind as it considers its options under the solar agreement in the years ahead.

We appreciate your request that the TLRC review the Zoo levy and are available to answer any questions you may have.

Respectfully submitted,

Chris Habel
Cincinnati Zoo Levy Subcommittee Chair

Tom Cooney, TLRC Chair
Heather Harlow, Member
Gwen McFarlin, Member
Mark Quarry, Member
Eppa Rixey, IV, Member
John Silverman, Member
John Smith, Member
Ed Steiner, Member
Michael Wilson, Member
Dan Unger, Member