

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

January 5, 2018

Hamilton County Board of Commissioners

Hon. Todd Portune, President

Hon. Denise Driehaus, Vice President

Hon. Chris Monzel

Re: Cincinnati Zoo and Botanical Gardens Levy

Dear Commissioners Portune, Driehaus and Monzel:

Based upon a request from the Cincinnati Zoo and Botanical Garden (Zoo), the Tax Levy Review Committee (TLRC) conducted a thorough review of the Zoo's proposal that the Hamilton County Commissioners place on the May 8th, 2018 ballot a five-year levy that would generate approximately \$6,550,000 annually plus a requested increase of 25% to be used for the care and feeding of the animals. The Zoo based this increase on the amount they would have earned had the county allowed their existing levy to increase with inflation, instead of holding it flat in the last renewal.

For this review, the TLRC appointed a subcommittee to review the prior TLRC's evaluation of the Zoo, and to examine the Zoo's operations and revenue streams. The TLRC engaged HW & Co. CPA and Advisers (Consultants) as consultants to conduct an operational review, and specifically to examine the quality of care for the animals and the status of the infrastructure, the two items identified as outcome measures from the previous tax levy. Through a series of meetings, presentations and site visits, culminating in a public hearing (see Appendix A for dates) we offer the following report.

The subcommittee reviewing the Zoo proposal and responsible for creation of this document consisted of Dr. Jennifer O'Donnell (chair), Janaya Trotter Bratton, Esq., Jeanette Hargreaves, Esq. and Robert Furnier, Director of W. Bruce Lunsford Academy for Law, Business + Technology. The Hamilton County Office of Budget and Strategic Initiatives through Lisa Webb and Jeff Weckbach provided invaluable support, reference materials and suggestions.

By way of background for this public document, we should start out by explaining that the Cincinnati Zoo and Botanical Garden has been a Cincinnati institution since the 1870s; and has enjoyed a contribution from the property tax revenue since 1982. The Zoo, located on about 80 acres in the heart of Avondale (Cincinnati), has made a commitment to be a good neighbor to the neighborhood and the region and has many philanthropic achievements to demonstrate that. At our meetings, Zoo management explained the great lengths to which the Zoo has gone to be a good steward of the site and recognize its role as a member of a community of single and multi-family homes, as well as major institutions. The Zoo is land-locked and limited in growth by parking logistics and access. Because of where they are situated, few of its visitors also explore surrounding businesses (restaurants and shops) to further expand the potential for sales tax revenue. For instance, if Zoo visitors were shuttled from parking lots to the restaurant districts on Short Vine or Ludlow Ave. before or after their visit, they might choose those shops and restaurants, thereby increasing their local spending. This would expand access

to those parking facilities, and could create a stronger sense of community collaboration between the Zoo and these retail districts.

The property on which the Zoo sits is owned by the City of Cincinnati (City), though the Zoo Foundation Properties, LLC is currently in the process of acquiring additional properties around the Zoo to address the need for more parking and exhibit space. This is somewhat controversial as the Zoo is in competition with Children's Hospital for this property, and with those who see this transformation as a demolition of the neighborhood. As a City owned property, the Zoo pays no property tax on their 80-acre parcel¹ and does not pay for water. The Zoo has taken that last gift very seriously and, over the last several years, has demonstrated significantly improved efficiency in solar power generation, waste water management and water collections systems, such that they have drastically reduced their water usage. The Zoo should be commended for this level of environmental management success.

As we understand it, Commissioners, you asked the TLRC to examine the merits of the Zoo's request to increase from their current position as recipients of (currently) approximately \$6.55 million dollars of revenue from the property taxpayers of Hamilton County to \$8.1 million dollars of revenue, an adjustment that has been estimated to cost the taxpayers an additional \$3-\$4 per \$100,000 of property value, raising the taxpayers' obligation on this levy to between \$13 and \$14 per \$100,000 per year; bringing the total tax liability up to approximately \$2,575 per \$100,000 for a City of Cincinnati resident. If approved, this increase would take effect in January 2019.

These decisions do not occur in a vacuum, and the Tax Levy Review Committee wanted you to know what was considered in making our decision and recommendations.

First of all, it is not every piece of property in Hamilton County that delivers funding to the Zoo, because like the 80 acres of property that the Zoo sits on, and its surrounding properties at Children's Hospital, the VA, the University of Cincinnati, etc., there are no property tax revenues generated for any of the public institutions as well as for the multitudes of tax-abated corporate properties and recent housing developments that get a tax abatement for their first several years. That means, that the tax revenue that the Zoo is hoping to garner, is falling on the wallets of a smaller and smaller group of property owners, the same property owners who are now required to pay for approved increases in the public-school levy, and the Senior Services levy. In the 2018 levy cycle, there has already been a request for a new Library levy, as well as a potential Metro sales tax, and a review of the Children's Services levy.

This committee is very conscious of the fact that when a tax levy goes on the ballot, the voters are not asked to think about the larger picture of the entire cost of their property taxes, but rather will hear a campaign that tells them only how much more the increase will be for this levy; and of course, when looking only at that increment, it sounds negligible to most. It is not negligible however to the many thousands of homeowners that are on fixed incomes and making decisions about a \$4 co-pay and food. When the Homestead Act was made virtually non-existent by Governor Kasich in 2011, seniors on fixed income were no longer protected against the property tax increases, so the Commissioners have to be mindful that majority approval could have extreme and unintended consequences to a fragile minority of homeowners.

¹ According to a public records search of the Hamilton County Auditor's records on 12/31/2017.

The Zoo addressed some of this in their offer to make the Zoo as affordable as possible to everyone. They are sending out invitations to over 50,000 JFS connected families offering a very reduced rate (\$35/year) for their annual pass. This does not change the fact that we would be asking some households (16% of Hamilton County residents are seniors with a median income of about \$30,000 per year) to increase property taxes at the expense of their basic needs. This subcommittee is not opposed to all tax levy increases, but believes we should prioritize those that are serving those populations that are most in need, and are for life-saving services, before we consider services that enhance the pleasure of living in our community. That said, we support the county continuing to support a Zoo Levy, and can make a strong argument for that.

Are the Cincinnati Zoo and Botanical Gardens (Zoo) good stewards of the Hamilton County tax dollars that they have already received?

According to the consultants, the Zoo has provided services consistent with what they promised when they asked for the tax levy five years ago. Further, the consultants conclude that the Zoo is innovative and mindful of its expenses, while still maintaining a level of care that well meets the accreditation standards of its industry, a certification which was recently granted again with an incredibly low number of comments from the evaluators, a clear stamp of excellence. The Zoo is an excellent innovator, educator, and partner to the community.

The only clearly documented restriction for the use of the tax revenue was that the Zoo must spend the tax dollars on “the care and feeding of the animals.” The Zoo takes this very seriously and follows state-of-the-art practices when it comes to this. It also experiences constantly increasing costs due to the increased standard of care for the animals and the related expenses. In response, the Zoo has developed a very strategic warehousing and ordering system designed to minimize any waste in this process. However, though their entire “care and feeding” budget has significantly improved because of this expert management, the Zoo contends that its qualified levy expenses have increased to 54% within the last ten years in contrast to a levy that has remained flat, because the levy contribution does not allow for inflation. The result is the tax money the Zoo receives now covers only about 46% of the cost of “care and feeding of the animals” such that the levy is only about 17% of the total operating budget, down from previous levels of 23% and 41% historically. The Zoo reports they are paying around \$15-\$18 million for “care and feeding of the animals” with \$6.55 million of it coming from the taxpayers. The taxpayers’ contribution, regardless of its size, allows the Zoo to use more of their other funds on salaries, programming, infrastructure improvement, etc., should its management choose to do that. The Zoo notes that no taxpayer revenue went to pay for administrative salaries or capital expenses.

It is important, however to look more closely at where this money is actually spent. Animal care and feeding is only one part of the allowed expenses. Animal care staff wages and training are also included, and infrastructure repair is permissible, as well. Because the Zoo insists it is very difficult to raise funds from other donor sources for infrastructure repairs, these repairs are pushed to a much lower priority. Interestingly, gate revenues, membership sales, and retail and parking revenues are mostly dedicated to programming, while donor-direct fundraising is mostly dedicated to *building new exhibits*, despite a clear need to fund infrastructure repair and maintenance with more consistent planning and upkeep. The TLRC sees this as a very serious negative, to the point of neglect of the asset. The donors would likely see it that way as well, were they completely aware of it. In effect, the Zoo has created a model whereby it raises the funds to build something new, but does not budget adequately for maintenance.

This is like buying a car and driving it until it runs out of gas, then asking for money for a new car. It would seem more fiscally responsible for the Zoo to manage their assets by creating a balance between maintaining their infrastructure and new building, rather than continue to develop more new exhibits whose upkeep is not adequately supported financially.

Another point of concern for the TLRC, and that is consistent from the 2013 TLRC report, is that there is no intention to stop relying on the property tax contribution. Despite other contributions made to the Zoo by the county and the city, the Zoo sees the property tax as an obligation that should continue to increase for the great asset that the Zoo brings to the region. According to the Zoo, this contribution by the county property taxpayers is earned by the Zoo, and expected because of projected returned revenue to the county by being a wildly successful tourist destination (citing Trip Advisor and the Chamber of Commerce and a 2012 economic development report). The Zoo also points to all the other zoos in the country and the state of Ohio that receive greater public support as proof that the county should increase support. To that point, the free water and property tax waiver provided to the Zoo, and any other City of Cincinnati services are also extremely important, and should be monetized as part of the taxpayers' contribution, but that was not explored in the current assessment. It should also be noted that the Zoo does not recognize the taxpayers' partnership or contribution in any of their published materials, possibly an oversight, but still given the level of contribution, it should be more clearly identified in at least the sponsorship materials.

Key Points Considered in Reaching Our Conclusion

The Value of the Investment

One argument made was that this levy is different from all the other "necessary services" levies (Indigent Care, Mental Health, Children's Services, etc.) because this is not a "payer of last resort" levy, but is rather a good faith gesture of the people of Hamilton County to keep this great asset available and accessible to the region. The Consultant's report clearly affirmed that, as did all the public comments. Speakers from the tri-state and locally, expounded upon the amazing programming and benefits of having a Zoo in our region. No one on the committee doubted that the county should continue to support this resource and continue to be a partner offering cost savings and cost reducing opportunities. The Zoo made the point that while there are many non-profit historical and educational entities in Hamilton County (none of whom receive this magnitude of tax levy funds), the Zoo is the premier location and program. The 2012 UC Economics Center Economic Impact Study² concluded that the Zoo creates 1700 jobs in the region, a \$51.7 million in wages and benefits, including the indirect positions created by the visitors' spending. The Economics Study also estimated the Zoo's visitors generated \$1.74 million in hotel taxes with a total economic impact of \$143 million per year. The Zoo touts this as a 350% return on the investment. While the committee does not doubt that there is a substantial return on the investment, the data provided did not include all of the benefits provided by the county and city (free water, and reduced property tax obligation) so that the actual investment by the county residents is higher than just the property tax contribution. That point is still clear, there is a positive return on the investment of the tax dollars. However, there is no indication that an increase in the financial investment will also increase the return. The Consultants were clear that the current attendance,

² <https://www.economiccenter.org/media/431099/zoosmall.pdf> located 12/31/2017

approaching 1.8 million is very close to the maximum number of attendees that the Zoo can attract annually, and sustain over the long-haul.

We Should Just Leave It Up to the Voters

Especially because this levy is not a levy convened to pay for necessary services to all residents of Hamilton County (for life sustaining services), and is not limited to who can benefit from it (to only Hamilton County residents, for example), an argument was made that the Commissioners really should just let this issue go on the ballot without any input, and let the Zoo win or lose on its own merits. Further, while losing the levy would be a significant blow to the Zoo, it would not end its existence, like a loss would for the Senior Services Levy or the Indigent Care Levy. After all, isn't this just a question of whether the majority of voters want to keep, protect, support, feed the Zoo, or not? And aren't the voters responsible for being aware of whether or not they can afford it? Historically, and anecdotally, the Zoo Levy is supported by an overwhelming majority (70-80%) of voters, and the Zoo staff are extremely confident that it will pass again at that level. So why not just let the voters decide? As one Zoo Board Member said at the public meeting speaking about the taxpayers, "We can afford to do both (support the Zoo Levy and increase another proposed levy on the fall ballot.)"

As the TLRC, we believe that this issue is much bigger than a simple yes or no vote on whether we support the Zoo. We believe that because the Zoo is asking for an increase, which if approved, is an obligation for all taxpayers, regardless of the voters' thoughts about the Zoo, the Commissioners must be mindful of the total tax obligation and return on the investment for the individual property owner. How much of a contribution is a reasonable one for this type of community asset? What if other similar entities asked for a taxpayer-funded investment of this magnitude? Paying this bill is obligatory for all property owners, with no mechanism to opt out of payment. Do all taxpayers benefit from this investment? Can they all utilize it? Given the limits to our available funds, is this how we as a community want to spend our money?

What would the Zoo do with the increased funding?

The Zoo said they would initiate a more robust infrastructure maintenance program and would continue to meet their salary and wage demands for their extremely dedicated staff; and continue to meet the ever-increasing demands for quality of care for the animals.

Salaries and Wages

Zoo management notes an on-average increase in cost of taxes and benefits over the last five years of nearly 30%, culminating in a \$20.2 million expense per year. Union wages have increased on average by 2.5%, but the "Membership and Park Operations" and "Facilities and External Properties" wages have seen a significantly higher increase driving the overall average increase to about 5 % over five years. The salaries and wages for Animal Care and Health have remained stable, during this same five-year period.

Infrastructure Maintenance Program

The 2013 TLRC asked for a detailed maintenance plan and a set aside for maintenance costs, and that that cost be built into the then drawing board project, Africa Exhibit. The 2013 committee foresaw the Zoo returning to the voters in 2018 for a significant increase to pay for the infrastructure maintenance of that project and that TLRC said, "such a situation can and should be avoided." We too expect this to be

the case in 2023, and then it will be for the funds needed for the project conceived of to mark the 150th anniversary.

The Consultants noted that the Zoo was able to deliver approximately \$1.4 million worth of infrastructure repair within the first few years of the levy cycle; however, the Consultants noted the Zoo apparently needed close to \$4 million worth of improvement/replacement/repair annually just to keep up with everything in place prior to opening their newest exhibition in December 2017.

Beginning in 2016, as a direct response to their increased gate revenue, the Zoo began spending that additional \$2.5 million on preventative infrastructure improvement. The \$1.5 million that the Zoo had been budgeting for is more of immediate-need infrastructure repair (must be fixed, now). However, not spending that additional \$2.5 million per year previously, did not mean the Zoo did not need that maintenance, only that it pushed off the obligation. That begs the question about what is the cost of the delay of maintenance in additional required costs? What about potential workplace accidents or additionally negative scenario risks and how is that accounted for? The quality of the infrastructure of the Zoo is as much of an asset to the taxpayer as are the animals, and the experts who care for them. Maintenance of the facilities is an obligation that should not be discounted and particularly not for providing funds for new builds or additional programming; a balance needs to be struck. The newly created Ten-Year Forecast of Capital Replacement Needs for Buildings and Exhibits *in Place* is an excellent first step. Now that needs to become a priority met with the \$4 million budget that will adhere to that plan. According to the Consultant's report (Scenario 1, page 48, Exhibit 41), at a projected level of 1.6 million visitors and without an increase in the levy funding, the Zoo would not be able to sustain that level of infrastructure improvement, without additional revenue. However, with 1.8 million visitors or an additional \$1 million in gate proceeds, the Zoo might be able to.

Debt Restructuring

Very little was highlighted about the Zoo's debt restructuring. The 2013 TLRC noted the Zoo had incurred "substantial debt" in order to grow, and that TLRC cautioned that this was not something that taxpayers wanted to be held responsible for. We bring it up here, because we think that the efforts of the Zoo to restructure their debt, directly affected their ability to maintain the infrastructure of the park. According to the Consultants (Scenario 1, page 48, Exhibit 41) if the attendance remains at the current level, they will not be able to do both (pay down their debt and maintain an ample maintenance schedule). The consultants reported the Zoo's efforts to pay off their debt was a positive step and indicated overall fiscal health.

What would the Zoo do if the levy remained at its current level?

The Zoo said a flat levy would mean that its operating funds will be flat for the short-term and will run into a deficit within a year. Management points out that what the Zoo is asking for, is only the money it would have received had the 2011 Commission not taken away the inflation cushion built into the original levy projections approved by the taxpayers.

That said, a flat levy means the Zoo would continue to defer infrastructure maintenance and would likely cut staff, one of their biggest costs. These cuts would not endanger wildlife, visitors or staff and would not cause the Zoo to cease services. There were no plans to halt exhibit growth or increase gate prices to offset a flat renewal. The Zoo said they would continue to draw only 5% from their

endowment, though in some circumstances the endowment has funded major capital projects, like the Africa Exhibit beyond that 5%.

The TLRC questioned the Zoo about alternative revenue streams that do not obligate property taxpayers to increase their share. Management's response was clear that they welcome all suggestions about additional or increased revenue streams, but they want the taxpayers to contribute more, regardless.

The Zoo has identified a few areas going forward that could have been/be better managed revenue streams. One is the licensing of their animals, and the promotional revenues that could result from that. The amazing phenomenon known as "Fiona, the hippo" is the perfect example, and the recent birth of Winsol, the delightfully ugly armadillo provides a new opportunity. Zoo management acknowledged that they were as shocked by Fiona's star power, as was everyone else, however they had to know that there was always the potential. This phenomenon is the dream of many a Zoo Board/CEO and should have been anticipated by putting a protocol in place that allows for capitalizing on it, should they see it occur. In Fiona's case, all the items that are circulating now (t-shirts, drink cups, jewelry, stuffed animals, books, etc.) are only generating "contributions" to the Zoo, not royalties, and have so far generated an estimated \$500,000³ or so. Further, their agreement with the on-site vendor, significantly limits the Zoo's potential to directly benefit monetarily from Fiona's popularity, or any other animal that captures the attention of the world. This vendor contract is in place for an extraordinarily long term. When asked about a protocol for implementing a licensing agreement going forward, Zoo management said they would look at their baby animal naming practice with the thought of potential licensing agreements, but said that the legal costs are prohibitive, and they do not expect the "Fiona" phenomena to occur again. There were still no plans to license "Fiona, the Hippo."

The Zoo management also proudly touted that they have done everything they could to keep the gate prices low to keep the cost of admission affordable to everyone. The TLRC pointed out that since nearly 50% of their patrons come from out of the county and according to anecdotes an increasing number are international visitors, we proposed that keeping that gate price low is actually a lost revenue opportunity for the Zoo. Management then explained this might be a negligible revenue increase, anyway, because despite the reports of well over 1.6 to 1.8 million visitors per year, that number includes everyone coming in the gate, not gate revenues. In 2017, almost 300,000 visitors were counted as full-paying adults and another 132,000 were children. Schools and Education programs (discounted attendance at about \$6 per head, and many are not charged at all) was about 106,000. Nearly 1 million of the 1.6 million are "Member Admits."

The current day-of rate for admission for the Zoo is \$19.00, though there are several opportunities for discounts, including \$2 for just buying the ticket online. By comparison, a Kings Island's one-day admission is about \$45, and the Newport Aquarium is \$27. Other similar attractions have implemented ideas like peak-hour and preferred date pricing, as well as other ticketing schemas to increase revenue. In 2017, Admissions and Memberships combined to generate \$18 million in revenue, up from \$15 million over the three previous years. The Consultants were not sure that the Zoo could sustain that level of gate revenue, but projected the Zoo would see over 1.8 million visitors next year. Considering the ask of the taxpayers to increase their contribution by \$3 to \$4 per \$100,000 home value, if made

³ Cincinnati Enquirer, January 4, 2018

equivalently to the one-time visitor who paid the daily rate to walk-in the Zoo, the gate would generate an additional \$1 million dollars annually.

What are the actual options?

- 1. Tax Levy on the May 8, 2018 Ballot with no increase**
- 2. Tax Levy on the May 8, 2018 Ballot with requested increase**
- 3. Tax Levy on the November Ballot (with or without an increase)**

What are the Sub Committee's Recommendations?

The Subcommittee has reached a consensus to recommend allowing the tax levy to proceed to the May 8, 2018 ballot, and are against a tax levy increase.

The committee does not agree that innovative science, excellent animal care and meeting the highest level of industry standards alone is sufficient to warrant an increase in the obligation to the property taxpayers. In effect, we concluded that this was not about the work being done at the Zoo, but is rather a question of where as a community do we put our tax burden. We respectfully ask that we continue to be good partners to the Zoo at the current level of funding and continue to promote them. Further, while we applaud the innovation, environmental and the social media successes reflected in the renovations, increased gate receipts and visitors, we have strong concerns about the priorities for maintaining the existing assets at the expense of building new ones. Ultimately, we believe the community has more life-protecting needs to be addressed right now, and that the Commissioners need to remain frugal in increasing the obligation of the limited resources for a significant number of households for non-essential services. Particularly with the most recent dramatic changes in the cost of healthcare, the last eight years of local government fund cuts, and now with the changes in the income tax laws, we recommend you keep this levy flat.

However, the subcommittee also clearly respects the Commission's ultimate authority in the matter, and therefore recommends that if the Commission recommends an increase in the amount of property tax revenue so that it can be given to the Zoo, the subcommittee recommends the following for consideration:

1. Creating the ability for this Levy to include the inflationary increases that were built into the pre-2011 levy calculations allows the contribution to keep up with the costs of goods and services without such a dramatic increase all at once.
2. Establishment of a restricted Capital Infrastructure Reinvestment Fund at the level of \$2.5 million per year, to be maintained at that level from the annual contribution of the property tax funds and to be disbursed following a priority-based system identified using the Ten-Year Forecast of Capital Replacement Needs for Buildings and Exhibits In Place as of the date of the activation of the Levy. This fund would roll-over if for some reason the Zoo chose not to use these funds for the planned infrastructure repair in that year, and instead put off those required repairs into the next year; thereby guaranteeing the funds would be available when the repairs were made.
3. Require all new exhibitions to build into their initial cost estimates and donor requests, a Ten-Year Forecast of Capital Replacement Needs maintenance budget and restricted fund, noting that with appropriate construction those costs are not likely to kick-in until approximately year 3 (for example) and will come out of the original private donations designated for that specific project.

4. Further, while the Zoo has made a great effort to keep the cost of attending the Zoo affordable, in so doing they have shifted the financial burden for maintenance to the Hamilton County taxpayers, instead of those outside the region. In that light, the subcommittee would ask the Commissioners to consider requiring a Hamilton County Taxpayer benefit that allows some additional benefit for those who are fortunate enough to be able to afford/attend the zoo, either on a one-day admission or annual subscription. Examples would include allowing Hamilton County residents a free upgrade in benefits from one level of pass to another; or a fixed rate for Hamilton County residents and an increase in the costs of all admissions to those who are from outside the county.

Lastly, the Consultants had strong opinions about the way the Zoo and its foundation which currently holds about \$17,000,000, interacted financially. The foundation is contributing to the repayment of the debt incurred for the newest exhibits, acting as a holding company for the donations and pledges and then repaying as the project proceeds. The TLRC did not have a strong feeling about this, only to say that the Consultants did not find any impropriety, but recommended greater autonomy of both organizations.

Respectfully,

A handwritten signature in black ink, appearing to read "Jennifer O'Donnell", written over a light blue grid background.

Jennifer O'Donnell
Chair, Cincinnati Zoo & Botanical Gardens Subcommittee
Hamilton County Tax Levy Review Committee

APPENDIX A

Calendar of Events for the TLRC Zoo Subcommittee Process

Date of Meeting	Purpose & Location
October 2017	Review Contract and Proposals from Consultants
11/08/2017	TLRC Organizational Meeting
11/13/2017	TLRC Presentation by the Zoo
11/24/2017	Interim Progress Report Due from Consultants
11/27/2017	Committee Meeting
11/28/2017 and 12/01/2017	Site Visit(s) to the Zoo
11/30/2017	Committee Call with Consultants
12/5/2017	TLRC Consultants Presentation
12/6/2017	TLRC Zoo Presentation
12/11/17	TLRC Zoo Public Hearing
12/28/2017	Committee Call
January 8, 2018	Presentation to the Commission

*all full TLRC meetings are public meetings