

Introduction & Executive Summary

Zoo Advisors has been engaged by the Friends of the Topeka Zoo (FOTZ) to review the proposed plans to modify the governance partnership between the Zoo, City of Topeka, and FOTZ and create a new public/private partnership (PPP) through a management license agreement with the City. We have conducted an assessment of the operating model which was developed and provided to our team for review. We have shared our observations about the assumptions and conclusions from the model with the FOTZ Board and highlight those findings below.

Background

Zoo Advisors (ZA), a national zoo planning firm from Philadelphia, PA, has been engaged by FOTZ numerous times dating back to 2012 to assist in developing a PPP between FOTZ and the City of Topeka (COT). ZA is an expert in zoo governance and financial modeling and has worked with over 100 zoos and aquariums and advised more than a dozen zoos on PPP and governance models. ZA clients include many neighboring zoos including in Wichita, Garden City, Manhattan (KS), Hutchinson, and Kansas City.

FOTZ is proposing a public/private partnership between the City and Society. A PPP is the shifting of the organizational, operational, and fiscal responsibilities of the zoo from the City to a non-profit management organization. The Zoo remains owned by the City but would be managed under a license agreement by FOTZ, which has been a long-term partner in improving the Zoo, operating admissions, food, and gift, raising money, and offering Zoo membership.

Today over 75% of all Association of Zoos and Aquariums (AZA) accredited zoos are managed through a public/private partnership – most through a non-profit. And there are many publicly run facilities that are considering governance and funding alternatives. Many zoos within the region already operate under this PPP model including Sedgwick County Zoo in Wichita, Kansas City Zoo, and Omaha's Henry Doorly Zoo. Zoos that have moved to this model have seen tremendous success with increased attendance, added investment in exhibits, and growth in revenue – both earned and fundraised. No zoo that has moved to this model has failed.

Benefits

The reasons for this trend to a PPP are clear:

- Streamlined organizations under a single, unified operating umbrella are far more efficient.
- Long-term spending by public entities is capped under PPP.
- The expertise of private governance allows these organizations to exceed evolving animal welfare and care standards and maintain AZA accreditation and better prevent USDA violations
- Private organizations are more easily able to quickly adapt to changing environments and audiences.
- Private governance positions zoos and aquariums as more prominent philanthropic priorities in their communities.
- The PPP will drive increased economic impact for the region, bringing in visitors from a broader geographic area

This change in structure provides a number of shared benefits to both the Zoo and the City. The community benefits from increased investment in high-quality exhibits and attractions and an enhanced visitor experience, realized from greater private support. As the zoo grows and succeeds – through gains in attendance, membership, earned income, and contributed support – additional dollars become available for zoo improvements – *‘what’s earned in the zoo, stays in the zoo’*.

Such a move provides a more cohesive vision, unified management structure and increased operational effectiveness for the Zoo. Additionally, this allows the zoo to become more entrepreneurial, efficient, and responsive to community needs by eliminating the redundancy that occurs with two organizations operating at one facility.

A public-private partnership model will broaden the level of funding streams into the Zoo and eliminate leadership and governance issues. **Now is the time for Topeka Zoo to make this change** to help proactively ensure the Zoo fulfills its mission, remains accessible to the community and is financial sustainable.

Findings

After our review and analysis of the proposed financial model for FOTZ for the PPP out through 2035, we provide the following observations and assessment.

We find the projected operating model to be credible and achievable. The estimates of changes to key operating metrics (including attendance, membership, revenues, and expenses) are well-calibrated to the actual performance of peer facilities around the United States, and well within reasonable expectations based on the proposed changes to the physical site and governing structure.

Attendance

As is true of any visitor attraction, attendance is the lifeblood of a financially sustainable operation for Topeka Zoo. While the Zoo generates income through a variety of channels, there is no single more impactful metric than the number of guests that will pass through the Zoo's gate, and the associated revenue that comes with them. Therefore, the estimates in the model about the number of visitors that will visit the Zoo in upcoming years are critically important.

The model contains projections through the 2035 operating year and predicts that attendance will grow to approximately 280,000 visitors. **We find this projection to be reasonable and achievable.**

The most recent data from the American Community Survey (via the U.S. Census Bureau) indicates that the Topeka, KS Metropolitan Statistical Area ("the MSA") is currently home to about 232,000 residents. That number has declined by about 1,800 (or roughly 0.8%) since 2015. At the macro level, we would characterize population growth as essentially flat.

While it is impossible to predict what the MSA's population may look like in 2035, assuming there is no radical shift in growth, the Zoo's peak projected market penetration (attendance divided by MSA population) would be about 120%. To test this number, we developed a benchmark group of other AZA zoos in comparable markets:

Facility	MSA	Attendance	Penetration
Topeka (current)	232,374	208,000	90%
Caldwell	228,093	208,842	92%
Cameron Park	270,813	360,289	133%
Erie	279,396	401,168	144%
Great Plains	254,833	286,337	112%
Red River	236,705	150,000	63%

The average market penetration among these zoos is 106%, but two of them (Cameron Park Zoo and Erie Zoo) penetrate at above 130%. It is not atypical for zoos in smaller markets (such as Topeka) to exceed 100% penetration—especially in scenarios where the guest experience is excellent. Therefore we assess that it is reasonable for Topeka Zoo to reach the attendance levels in its projection model so long as the proposed master plan is implemented on a schedule approximating what is modeled.

The **attendance composite** (the percentage of visitor types) in the model is based on averages of 3 years of actual Topeka Zoo operating data. The model indicates that approximately 40% of visitation will come from members during the first year, and gradually shift towards general admissions attendance later in the model period as visitors come from further distances. By 2035, the model estimates that 27% of visitors will be members, while the remaining 73% will be made up of other admissions categories. This attendance composite would represent a healthy visitor mix.

We assess the **admissions fee structure** to be well thought out and credible. If primary market research on price elasticity and tolerance has not been conducted by Topeka Zoo, we strongly recommend that the organization considers it in upcoming years, ideally before major improvements start to open. This type of research would scientifically test the actual value that consumers place on the Zoo experience, and help the organization maximize revenues empirically.

Membership

We assess the projections surrounding the membership program to be credible. These projections indicate a slow and steady shift towards a lower capture rate. “Capture rate” is a metric calculated by dividing the total number of annual membership transactions by the total number of visitors, and serves the purpose of contextualizing the size of a membership program relative to the number of overall visitors. By the latter half of the model period, capture rate is expected to fall from the current rate of over 2.5% to roughly 1.9% to 2.0%. **This represents a favorable outcome**, in that a larger proportion of visitors are projected to pay the full admissions rate.

The model also accounts for increases in membership dues to keep pace with concurrent increases in admissions fees.

Fundraising and Development

We assess the contributed revenue estimates under the “Fundraising and Development” heading to be reasonable and credible. Each of these estimates represents incremental growth on existing actual performance.

If anything, it is likely that FOTZ will be even more effective in its fundraising program if it separates itself from the City. The impression that a zoo is own and operated by a public entity such as a city or county has been demonstrated to be a detriment in contributed revenue efforts. By contrast, numerous zoos which have moved to a private governance structure in recent years have experienced significant development and an increase in their ability to fundraise, especially for capital projects. For example:

- **John Ball Zoo (Grand Rapids, MI):** Shifted governance from County operation to nonprofit in 2013; shortly thereafter embarked on a visionary masterplan funded significantly by private fundraising efforts; secured additional tax funding; grew attendance by 28% at peak.
- **Reid Park Zoo (Tucson, AZ):** Privatized in 2019; has since announced a major new suite of master plan improvements.
- **Potawatomi Zoo (South Bend, IN):** Privatized in 2014; developed new exhibits and opened a new entry complex in 2019, funded in part by increased contributed support; secured public tax funding in 2018; increased attendance by over 20% at peak.

- **Sedgwick County Zoo (Wichita, KS):** Has been operated by a private nonprofit for over two decades experienced attendance growth of over 20% in the last ten years; built industry leading elephant habitat; new entrance under construction; funded in part by contributed support.
- **Kansas City Zoo (Kansas City, MO):** Also has been run by a private nonprofit for over two decades; set out on a 14 year development plan in 2006 to revitalize habitats and experiences across the Zoo; grew attendance by 85% at peak; currently building a \$50M + aquarium supported by private fundraising.

While we expect Topeka Zoo will experience similar results in the years after revising its governance structure, it is very difficult to specifically project these outcomes. Therefore a much more conservative estimate is projected in the model.

Other Earned Revenues

Strollers, Wagons, Scooter Rentals: We assess this projection to be credible.

Venue Rentals: We assess this projection to be somewhat aggressive, but credible if modifications to the site include improvements to venues and the organization implements a strong rental program. It is also possible the COVID or comparable future incidents could impact these numbers.

Birthday Parties: We assess this projection to be credible.

Concessions: While the strategy of tying concessions revenue growth to increases in attendance is accurate, this projection neglects to include any meaningful growth to per capita spending. In practice, visitor per capita spending on concession typically increases by about 2% per year based on improvements in products and service. This would translate to roughly 25% more gross concessions revenue by 2035.

Leopard Spot: As with the concession program, we assess the gross revenue projections to be too conservative for the same reason. We recommend projecting a 2.0% increase in per capita spending in each year in both cases.

Education Programs and Camps: We assess this projection to be credible.

Conservation: We assess this projection to be credible.

Personnel Expenses

We assess the projections surrounding personnel to be generally well-reasoned. The built-in 2.5% annual escalation is on the conservative side (typically we model 3.0%), but the 2.5% number is certainly credible and achievable.

At roughly 33% of full-time wages, the “benefits and allowances” line-item is reasonable for a zoo with a high percentage of employees with benefits packages originating in the public sphere.

The model also projects a significant increase in staffing between 2021 and 2035—the Zoo intends to bring on 16 full-time positions and has budgeted for increases in seasonal staff to match attendance growth. Based on the Zoo’s stated schedule of improvements, we assess the quantity and timing of the new full-time positions to be reasonable and necessary to accommodate the Topeka Zoo of the future, although we question the decision to eliminate the Guest Experience Manager position. These new positions will create approximately \$183,000 in new personnel expenses in 2021, rising to about \$1.15 million by 2035. Benefits are calculated at 32% of base salaries. It is also possible that some additional administrative personnel might be necessary to function in roles previously administered by the City.

Other Expenses

Based on our review of the remaining operating expenses categories, we find them to be generally reasonable and credible with two exceptions:

- **Insurance:** Further questioning about this line item reveals that it does not include vehicle insurance for the Zoo’s fleet (six motor vehicles and several golf carts), which is estimated to incur about \$10,000 annually in addition expenses; and that property insurance has been underestimated by about another \$10,000. We recommend the addition of \$20,000.
- **Volunteer:** While not a large line-item, volunteer expenditures at about \$23,000 are significantly higher than we typically observe. We are advised by Topeka Zoo staff that this line does not include any personnel expenses.

Capital Maintenance Plan

In addition to our review of the operating model, we also assess the capital maintenance plan. While, the plan appears to be incredibly thorough and well thought out, **it is impossible to make an absolute judgement because there has been no formal asset assessment of the Zoo’s holdings.** We recommend that the Zoo consider undertaking such an assessment in upcoming years to add certainty to its estimates.

Alternative

It is our assessment that the best possible outcome for the Topeka Zoo is to proceed with the proposed shift in governance. One of the most impactful benefits that would come with this change is the improved ability and energy of FOTZ to invest significantly in the Zoo. If the partnership revision does not proceed, and the current funding model is unable to match what is proposed by FOTZ, the Zoo would very likely suffer in the long term. The driving factor for maturing zoological organizations like Topeka is investment in guest experience and animal welfare. If investment is not made, the Zoo's accreditation could be at risk; attendance will wane; finances will suffer; and ultimately the organization could find itself on an unsustainable financial footing with growing concerns of maintaining ever-increasing animal welfare standards.