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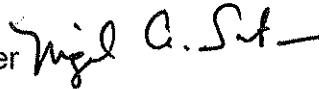
OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: December 06, 2013

CAO File No. 0220-04877-0001
Council File No. 13-1469
Council District: 4

To: Arts, Parks, Health, Aging, and River Committee
Budget and Finance Committee

From: Miguel A. Santana, City Administrative Officer



Reference: Letter to the Mayor and City Council from the Los Angeles Zoo Department dated November 1, 2013

Subject: **LOS ANGELES ZOO AND BOTANICAL GARDENS - BUSINESS AND MARKETING PLANS**

SUMMARY

The Los Angeles Administrative Code (LAAC) Sec 22.711 requires that the Los Angeles Zoo and Botanical Gardens (Department) prepare and submit to the Mayor and City Council, at least every five years, Business and Marketing Plans (PLANS). The PLANS shall contain marketing and financial projections for the Department for a maximum of five years and shall include, but not be limited to, methods to attract additional visitors and funds to the Zoo and calculations of funds anticipated to be received from fund raising, admissions (paid attendance) at the Zoo, City General Fund, membership, grants, concessions, and other commercial enterprises.

On November 1, 2013, the Department submitted PLANS (2014-15 through 2016-17) to the Council for approval (Attachment 1). The PLANS, developed by the Zoo and the Greater Los Angeles Zoo Association (GLAZA), outline four primary goals that focus on the Zoo campus, conservation, the community and human capital. The PLANS also puts forward strategies for achieving the above goals and highlights key metrics and assumptions utilized in formulating the PLANS.

In 1997 the City Council approved a 25-year operating agreement between the City of Los Angeles and GLAZA. Under this agreement, The Zoo Director is authorized to negotiate and execute separate memoranda of understanding provided that the terms do not exceed the expiration date of the Operating Agreement (September 29, 2022) or a maximum of three years. The memoranda of understanding must be approved by the City Attorney and comply with the objectives and strategies of the Business and Marketing Plans approved and adopted by Council.

On May 3, 2013, the Los Angeles Zoo and Botanical Gardens (Department) executed a proposed

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Memorandum of Understanding with the Greater Los Angeles Zoo Association for Marketing and Public Relations and Site Rentals and Catered Events (Marketing MOU) (Attachment 2). In recognition that the required Business and Marketing plans would not be submitted to Council until later in the year, the MOU contains a ratification clause, prepared by the City Attorney, which requires that the Zoo submit the Business and Marketing Plans (PLANS) to the City Council for approval no later than November 1, 2013 and that Council approve the PLANS and ratify the MOU no later than December 31, 2013 (Attachment 3).

The Department's 2013-14 Adopted Budget was formulated based on the assumption that the Marketing MOU will be ratified. Failure to ratify the Marketing MOU will require that funding be restored for the Department's Contractual Services account in the amount of \$800,000 for advertising contracts be restored. GLAZA provided one time funding in the Department's 2013-14 Adopted Budget in the amount of \$600,000 to facilitate the advertising programs associated with the opening of the Rainforest of the Americas exhibit.

In addition, the Department will not benefit from a total of \$8.67 million (\$2.65 million in 2013-14, \$2.80 million in 2014-15, and \$3.22 million in 2015-16) that GLAZA will budget for marketing, advertising and public relations during the term of the Marketing MOU. This three-fold increase in the Department's annual marketing is projected to increase public exposure and grow attendance at the Los Angeles Zoo and Botanical Gardens, which will in turn positively impact admissions, concessions, and membership revenues for the Department.

The PLANS include sample budgets with revenue projections that increase from \$18,228,110 in FY 2013-14 to \$23,090,274 in FY 2016-2017. This increase of approximately \$5 million in revenue includes a request for general fund contributions of approximately \$2 million. This office recommends items that have a potential budgetary impact be considered during the annual budget process. In the current FY, the Department is reporting a projected deficit of \$310,000 in its revenue projections as of October 2013, this Office will continue to monitor and work collaboratively with the Department on the budget.

The Business Plan also identified a number of factors that are critical to the Department's success including being exempt from the managed hiring process. It is recommended that the Department be required to continue being subject to the managed hiring process. This Office will continue to work with the Department to expedite any critical staffing requests.

Business Plan

The Business Plan states that attendance, pricing structure, and revenue projections rely upon GLAZA successfully achieving the following deliverables, milestones and metrics:

- Invest over \$2 million annually in the Marketing and Public Relations Program
- Generate a total of more than \$6 million of new funding for the Zoo

- Increase the Zoo's market penetration of its Metropolitan Statistical Area by a total of 12 percent
- Increase the Zoo's paid attendance by 5 percent annually
- Increase the Zoo's total admission revenue by 11 percent annually
- Increase the Zoo's other earned revenue (concessions and memberships) by 21 percent
- Replenish and grow the marketing and public relations budget annually
- Opening of Rainforest of the Americas exhibit in first quarter of 2014

Marketing Plan

The Marketing Plan itemized the marketing goals which include establishing the Zoo as a premier entertainment and education destination, building a strong brand, increasing market penetration, and growing year over year paid gate attendance. The PLANS further details strategies and metrics by which success in each strategy can be measured.

The three-fold increase in the Department's annual marketing budget is projected to increase public exposure and grow attendance at the Los Angeles Zoo and Botanical Gardens, which will in turn grow admissions, concessions, and membership revenues for the Department.

RECOMMENDATION

That the Council, subject to the approval of the Mayor:

- 1) Approve the three-year Business and Marketing Plans;
- 2) Determine that the Memorandum of Understanding between the Los Angeles Zoo and Botanical Gardens (Department) and the Greater Los Angeles Zoo Association (GLAZA) for Marketing and Public Relations and Site Rentals and Catered Events is in conformance to the approved Business and Marketing Plans; and
- 3) Ratify the Memorandum of Understanding as required in Section 7 of the MOU between the Department and GLAZA.

That the Council:

- 1) Instruct the Department and GLAZA to provide a biannual status report on the MOU deliverables, the marketing efforts and the revenues generated from those efforts; and
- 2) Instruct the Zoo Director, in accordance with LAAC Section 22.714, to report back biannually to Council on the status of the Zoo Enterprise Trust Fund, and to include in this report the status of the Zoo Surplus Development Fund, and the Zoo Assistance Fund.

FISCAL IMPACT STATEMENT

There is no General Fund Impact in the current fiscal year from the recommended actions. Approval of the recommendations will not result in any changes to the Los Angeles Zoo and Botanical Gardens 2013-14 Adopted Budget. However, implementation of proposals within the Business and Marketing Plans, such as the appropriation of additional General Fund support to the Zoo in future years, may result in a General Fund impact. Any funding proposals should be evaluated during the annual budget process.

Failure to adopt the Business and Marketing Plans and ratify the Marketing MOU prior to the deadline of December 31, 2013 will nullify and void the Marketing MOU. As a result, the City will have to provide funding to the Zoo's Contractual Services account in the amount of \$800,000 for advertising contracts, causing a potential General Fund impact. In addition, the City will not benefit from the potential increase in revenues and the \$8.67 million in marketing reinvestments.

BACKGROUND

1. Greater Los Angeles Zoo Association (GLAZA)

GLAZA is a non-profit corporation created in 1963 whose mission is to support the Department in its mission to nurture wildlife and enrich the human experience. GLAZA's primary responsibility is to seek and provide financial support for the Department's programs and capital projects. GLAZA's relationship with the Department is governed by a 25-year Operating Agreement, dated July 1, 1997, and expires in September 29, 2022.

The Operating Agreement provides that separate memoranda of understanding will have to be established to address:

- Annual goals and details of fund raising
- Terms and conditions of membership in GLAZA and distribution of membership funds between the Zoo and GLAZA
- Activities, other than fund raising, to be performed by GLAZA

The Operating Agreement also amended an existing Concessions Agreement between the City of Los Angeles and GLAZA. The amendments include a 10-year extension of the Concession Agreement which began in February 12, 1981 to February 11, 2016 and the authority for GLAZA to subcontract concessions at the Zoo. A new Concession Agreement will need to be submitted to Council for approval prior to February 2016 in order to continue the current arrangement with GLAZA.

GLAZA is currently responsible for the debt service payments on the Municipal Improvement Corporation of Los Angeles funds for the Elephants of Asia Exhibit (Exhibit). The final construction cost as of June 30, 2013 was \$14 million. As of September 30, 2013, GLAZA has paid over \$2.1 million towards the principal and interest for the construction of the Exhibit.

2. Alignment of Business and Marketing Plans, MOUs and Operating Agreement

The business and marketing plans, MOU agreements between GLAZA and the Zoo, and the operating agreement need to work together to optimize the partnership, clarify roles and responsibilities and accurately reflect the financial arrangements. Any subsequent revenue sharing proposals should be evaluated in this context. The term of the marketing MOU expires in 2015-16.

MAS:RPE:08130213

Attachments



November 1, 2013

Honorable Eric Garcetti, Mayor
 City of Los Angeles
 City Hall, Room 303

Attention: Ms. Mandy Morales, Office of the Mayor

Honorable Los Angeles City Council
 c/o: Office of the City Clerk
 City Hall, Room 395

"Nurturing
 wildlife
 and enriching
 the human
 experience"

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Eric Garcetti
 Mayor

Tom LaBonge
 Council Member
 4th District

Zoo Commissioners

Karen B. Winnick
 President

Bernardo Silva
 Vice President

Sue Downing, D.V.M.

Yasmine Johnson

Marc Mitchell

Richard Lichtenstein
 ex officio member

John R. Lewis
 Zoo Director

Honorable Members:

In accordance with the Ordinance that created the Zoo as an independent Council-controlled City Department, and Los Angeles Administrative Code Section 22.711, the Los Angeles Zoo hereby submits for Mayor and Council approval a three-year Strategic Business and Marketing Plan (Fiscal Year 2014–2015 through FY 2016–2017). The purpose of this Plan is to provide the structure by which to examine the current nature of the business, coalesce around the existing mission and new vision for the future, and chart courses of action that will enable us to meet our goals.

SUMMARY

The three-year Business and Marketing Plan formulates four key vision goals that were developed by Zoo and Greater Los Angeles Zoo Association (GLAZA) senior management that focus on the Zoo campus, conservation, the community and human capital. The goals are further supported by strategies and tactics that are based on a set of key assumptions relating to funding, operations, attendance, revenue and the development of the next phase of the Zoo Master Plan. Continued growth and improvement, as well as support from key strategic audiences, is critical for the Zoo to accomplish that which is set forth in this Plan.

BACKGROUND

On May 3, 2013, the Zoo Department executed a Memorandum of Understanding (MOU) with GLAZA for programs and services to be provided in the areas of public relations, marketing, special events, site rentals and catered events. Included in the MOU was a ratification clause which states that the "MOU is subject to ratification by the City Council and may be ratified by Council before or at the time of the approval of the Business and Marketing Plans by Council." The language further requires that the Marketing and Business Plans be submitted to the City Council no later than November 1, 2013 and that if the Plans are not approved and adopted by December 31, 2013, that the MOU shall be void.



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Creation of the Zoo Department – Los Angeles Administrative Code (LAAC)

The Ordinance which created the Zoo as a separate Council-controlled City department established the requirement that the Department prepare a Marketing Plan and a Business Plan that requires prior approval of the City Council and the Mayor in order to become effective and before its implementation. Specifically, LAAC Sec. 22.711, states the following:

The Department shall prepare and submit to the Mayor and City Council, at least every five (5) years, a (1) Marketing Plan and (2) Business Plan. The Marketing and Business Plans shall contain marketing and financial projections for the Department for a maximum period of five (5) years and shall include, but not be limited to, methods to attract additional visitors and funds to the Zoo and calculations of funds anticipated to be received from fund raising, admissions (paid attendance) at the Zoo, City General Fund, membership, grants, concession(s) and other commercial enterprises.

Operating Agreement with the Greater Los Angeles Zoo Association

The Los Angeles Zoo receives support from the Greater Los Angeles Zoo Association (GLAZA) in accordance with the 25-year Operating Agreement between the City of Los Angeles and GLAZA approved by the City Council (C.F. 94-0989-S1) and executed in September 1997. GLAZA was established as a California nonprofit charitable corporation formed for the purpose of assisting the City in establishing, developing, beautifying, and improving the Los Angeles Zoo.

Pursuant to the Operating Agreement and LAAC Sec. 22.712, the General Manager can negotiate and execute MOUs with GLAZA for (1) fundraising; (2) terms and conditions of membership in GLAZA and distribution of membership funds between the Zoo and GLAZA, and (3) as appropriate, activities, other than fund raising, to be performed by GLAZA. The MOUs have their own respective periods of performance (maximum of three years), terms and conditions, but operate as sub-agreements to the Operating Agreement. Finally, each MOU must conform with and carry out the objectives and strategies of the Business and Marketing Plans as approved and adopted by the Mayor and City Council. Historically, the Zoo and GLAZA have executed MOUs in the following areas:

- Financial Assistance, Special Events and Community Affairs;
- Membership, Publications and Volunteer Programs; and
- Concessions

LOS ANGELES ZOO BUSINESS AND MARKETING PLAN OVERVIEW

The Business and Marketing Plan examines and reaffirms the Zoo's mission and debuts the new vision statement which was developed earlier this year when GLAZA and the Los Angeles Zoo formed a Long Range Planning Committee to develop a distinctive vision for the Zoo. This vision ties together actions and investments the Zoo must prioritize to stand out among American zoos in this century, as well as provide a zoo experience that evokes from visitors a sense of awe.

Vision Statement (2028)

We will leverage the diverse resources of Los Angeles to be an innovator for the global zoo community, creating dynamic experiences to connect visitors and animals.

After arriving at the vision statement, the Los Angeles Zoo and GLAZA established four goals, with the supporting strategies and tactics, within the context of the Zoo's mission and operations to realize this vision:

1. **Campus:** We will upgrade the campus with a focus on habitat, sustainability and the guest experience.
2. **Conservation:** We will create model conservation programs that encourage local action in Los Angeles for the global community as well as local action in global locations where we are active.
3. **Community:** We will create dynamic experiences to connect people with wildlife.
4. **Human Capital:** Create a work environment where the Los Angeles Zoo's vision is shared and employees, docents and volunteers understand their role in attaining the vision and achieving the strategic goals and objectives.

The Plan provides a detailed description of the Zoo, including a historical timeline, recent notable events and an overview of the Zoo Bond Capital Improvement Plan. The Plan also describes the products and services offered by the Zoo including educational exhibits, programs, and events, a venue for family recreation and conservation programs.

A key component of a Strategic Business Plan is an assessment of the institution's strengths, weaknesses, opportunities and threats, or a SWOT analysis. The Plan identifies that the Zoo possesses a variety of strengths and weaknesses that must be taken into account when planning the long-term future of the Zoo. The strengths and weaknesses presented in the SWOT analysis are those most frequently mentioned from 616 visitor exit interviews conducted by the Morey Group, as well as 160 completed internal surveys from Zoo employees.

Planning Assumptions and Projections

The planning assumptions used for developing the attendance, pricing structure and revenue projections are all predicated on the MOU with GLAZA for Marketing, Public Relations, Special Events, Site Rentals and Catered Events, as well as the following overriding assumptions:

- GLAZA achieves the deliverables, milestones and metrics listed above;
- The construction schedule for the Rainforest of the America's exhibit does not continue to slip; and
- Support from the City matches projections.

A significant element to the Plan is agreement by both organizations that a membership and admissions pricing strategy needs to be instituted, and that the recoup factor, the cost of admission against the cost of membership to see how many visits it would take to "recoup" the

membership investment, needs to stay at least at 1.9 which is based on industry standards. As a result of this coordinated pricing strategy, it has been mutually agreed that the admission rates and membership rates will be increased each of the next three years. As a result, pricing projections for Fiscal Years 2014-15 through 2016-17 are as follows:

Pricing Strategy

Fiscal Year	Adults	Children	Seniors	Group Rate (15+)	Family Membership	Recoup Factor
2012–2013	\$17.00	\$12.00	\$14.00	\$11.00	\$114.00	1.84
2013–2014	\$18.00	\$13.00	\$15.00	\$12.00	\$119.00	1.92
2014–2015	\$19.00	\$14.00	\$16.00	\$13.00	\$126.00	1.91
2015–2016	\$20.00	\$15.00	\$17.00	\$14.00	\$134.00	1.91
2016–2017	\$21.00	\$16.00	\$18.00	\$15.00	\$141.00	1.91

Revenue, Budget Projections and Assumptions

The Department’s operating revenue largely consists of receipts from admissions, concessions and membership. In the 2013-14 Budget, these receipts represent 86 percent of the total Zoo budget. The Department currently has a revenue sharing arrangement with GLAZA for all three categories of revenues which are further detailed in the Plan and will be subsequently included in MOUs with GLAZA. In addition, the Plan also discusses other revenues that are generated and/or received from other activities. Finally, this section of the Plan describes the Zoo Enterprise Trust Fund, its established purpose and historical uses and assumes there will be City support to utilize the Fund as it was originally envisioned.

The Plan discusses the Zoo’s operating budget by both reflecting on its history, and making projections for the future. Important to this discussion is the General Fund contribution to the Zoo which has varied greatly over the years, with the contribution decreasing by over 97 percent during the last eight years. While the Zoo recognizes the financial challenges that the City has faced, coupled with competing City priorities and core services, the Zoo also believes that it provides a community benefit that is central to the quality of life of our visitors. It is important for thriving communities like Los Angeles to provide quality recreational and cultural facilities and attractions. As a result, the budget projections which are further detailed in the Plan, assume a 10 percent contribution from the General Fund for each of the next three years.

Marketing Plan

The Marketing Plan includes a market analysis, utilizes market research, identifies primary and secondary target audiences and examines the “share of voice” and the Zoo’s competitors which informed the development of the four key marketing goals below that are supported by strategies and tactics. The following chart provides the attendance projections through Fiscal Year 2016-17.

Attendance Projections

Fiscal Year	GLAZA Members	Free	Paid General Admission	Paid Group Admission	Special	Total Attendance	Change
2012–2013	588,878	82,459	705,540	112,148	17,249	1,506,274	(10.24%)
2013–2014	601,750	79,380	798,000	126,360	24,495	1,629,985	7.59%
2014–2015	578,288	80,968	837,900	137,732	30,006	1,664,894	2.10%
2015–2016	537,981	82,587	879,795	151,506	36,008	1,687,877	1.36%
2016–2017	538,460	84,239	923,785	168,171	43,209	1,757,864	3.98%

Conclusion

The Plan identifies critical success factors that must be considered mandatory in order for the Zoo to accomplish the key vision goals and achieve the various projections contained in this Plan. They can be seen as crucial cornerstones in laying down the foundation of the next ten years and beyond. The Zoo is at a point where defining its future and charting the course is essential to becoming a premier zoological institution.

Finally, this Plan is intended to be a fluid and dynamic document such that if any of the assumptions presented herein change, or if there is a major environmental impact to the Zoo, then this document will be adjusted to reflect future impact and implementation. Therefore, the potential exists for goals, strategies and tactics to be modified, as appropriate.

RECOMMENDATIONS

Recommendations for Council action, subject to the approval of the Mayor:

1. Approve the Los Angeles Zoo Strategic Business and Marketing Plan Fiscal Year 2014-15 through Fiscal Year 2016-17; and
2. Ratify the Memorandum of Understanding between the Zoo Department and the Greater Los Angeles Zoo Association, executed on May 3, 2013 for Marketing and Public Relations and Site Rentals and Catered Events.

FISCAL IMPACT STATEMENT

The Zoo hopes that this Plan has provided a better understanding and appreciation of the Zoo, its mission and long-term vision and that the City will continue to invest in the Zoo at a sustained level which will serve as the foundation for our future growth. The assumptions put forth in the Plan represent growth in all areas, including the General Fund which would require an increase of approximately \$1.8 million in year one of the Plan, but is still over 80 percent below the highest General Fund contribution to the Zoo Department’s budget in Fiscal Year 2006-07.

The Zoo looks forward to working with your Offices as you consider the Los Angeles Zoo Strategic Business and Marketing Plan Fiscal Year 2014-15 through Fiscal Year 2016-17. At your convenience, I am available to discuss this matter further at (323) 644-4261.

Respectfully submitted,



John R. Lewis
General Manager and Zoo Director
Los Angeles Zoo and Botanical Gardens

Enclosure

cc: (Copies sent electronically)
Tom LaBonge, Councilmember – CD 4
Miguel A. Santana, City Administrative Officer
Gerry A. Miller, Chief Legislative Analyst
Dov Lesel, Office of the City Attorney
Board of Zoo Commissioners