



FINANCE COMMITTEE SUMMARY MINUTES

Special Meeting
September 6, 2022

The Finance Committee of the City of Palo Alto met on this date in the Community Meeting Room and by virtual teleconference at 5:30 P.M.

Present In-Person: None

Present Virtually: Council Member Tom DuBois (Chair), Council Member Eric Filseth, Vice Mayor Lydia Kou

Absent: None

Chair Tom DuBois invited the public to comment. No one was present to comment.

Oral Communications:

None

Agenda Items

1. Review the FY 2022 Junior Museum and Zoo Update, Including Scenarios for a Fully Cost Recoverable Program

Community Services Director Kristen O’Kane presented on the operations status of the Junior Museum & Zoo (JMZ) since opening in November 2021 and scenarios on a fully cost recoverable program as directed by the City Council in May 2020. They originally presented to the Finance Committee in March 2020 a \$10 ticket price with a range of membership fees but came back with an \$18 ticket fee as a budget reduction strategy due to the financial impacts of the pandemic. Staff directed them to return with a report on the JMZ 6 months after it opened with an idea of what it would look like to eliminate the General Fund subsidy through a fully cost recoverable program. One year later and after discussion with Friends of the Junior Museum & Zoo and reevaluation of the ticket price, they discussed with the Finance Committee the \$18 ticket price was too high and would harm attendance and limit accessibility. In June 2021, Council approved a \$10 ticket price as part of the FY 2022 Adopted Budget with the intention for an October 2021 opening date.

SUMMARY MINUTES

JMZ opened in November 2021 and was open weekends only for the first 2 months. Beginning in January, it was opened on a regular schedule of Tuesday through Sunday. Cost recovery was estimated at 65 percent and came in at 54 percent. Factors for this difference include different than anticipated trends and impacts out of their control including COVID-19 surges and minimal facility rentals due in part to staffing deficiencies. There was also an issue of members overbooking reservations and then not using them and then tickets went unused and this contributed to not meeting revenue expectation. Some expenses tracked lower than anticipated due to salary savings, contracts and supplies savings, and lower than estimated allocated charges.

Management Analyst Karina Alvarez stated the actual cost recovery level was less than anticipated but they saw an increase in ticket sales, memberships, and facility rentals. Revenue from summer camps was captured through June 30, 2022. Facility rentals were at a standstill most of the year due to COVID-19 but there was an increase for rentals from April through June. She noted memberships were to residents and came in a lot higher than what was estimated as part of the adopted budget. Scenarios using FY 2023 financials as the baseline only capture an increase in ticket and membership prices as they were the highest revenue generated in FY 2022. The membership price increases \$1 by scenario to stay within the 100-percent cost recovery threshold. The \$18 scenario is a high price as it assumes no change in membership prices yet achieves a cost recovery level of about 104 percent. For the FY 2023 Adopted Budget, the JMZ did not increase ticket or membership prices as there was uncertainty with COVID-19 and limited data to understand the impact of a ticket price increase on the community. Facility rentals continue to do well but it is uncertain what the revenue trends for rentals will look like, so Staff will continue tracking expenses and revenues to make the appropriate recommendations in the future.

Director O’Kane said visitor experience could be limited by the avian flu and staffing. Currently all birds are being kept away from visitors for the birds’ safety, but different animal experiences are planned. Regarding staffing, JMZ is having high turnover, difficulty hiring part-time staff, and difficulty recruiting qualified candidates and retaining current staff. Fewer staff mean less service, assistance to visitors, and animal care. She said Staff is not recommending any fee increases at this time. If direction is given for higher cost recovery, Staff would recommend developing a road map to get there. As FY 2024 budget proposals are being developed, Staff will take another look and consider a gradual increase and other ways to increase revenues.

SUMMARY MINUTES

Council Member Eric Filseth wondered what revenues will look like in Fiscal 2023, not just the Adopted Budget. He said the current plan increases expenses by \$1.3M. The Fiscal 2022 revenue came in about \$800,000 short. He asked if the expense line would be increased by \$1.25M, there must be confidence that total revenue will be where it is instead of \$1.476M again. He commented that membership has been a big win. The main revenue source has been memberships, classes, and camps and the shortfall has been walk-ins. He said even though memberships look ahead of schedule and 50-percent more were sold than anticipated, it didn't look like it cannibalized a lot of the walk-ins. He said it looked like walk-ins were low and asked why that was. He questioned how much they were losing to lines and people not able to get appointments, and he said getting more people to come is key. Council Member Filseth asked if they had a better projection of visitor counts in Fiscal 2023.

Palo Alto Junior Museum & Zoo Museum Community Manager John Aikin said the pandemic is the wild card and it is hard to assess how people will react with another variant. Members make up 50 percent of JMZ visitors, which is a high percentage, and they have unlimited tickets currently. He suspects they are poaching from available general tickets holders.

Council Member Filseth said it looked like they were \$600,000 short on revenues from general admission visits and he perceived \$100,000 of that was poached.

Manager Aikin said they have limited capacity which will always be a struggle and part of it is due to membership pricing, ticket pricing, and who the members are.

Council Member Filseth asked for the number of visits a week currently.

Manager Aikin said it varies with weekdays lower than weekends. At full capacity, they get about 500 per session and up to 900 people. He added that numbers vary with the months. Early summer numbers were high. He said it is currently the slow time and today it was empty due to the heat.

Council Member Filseth said it is best to look at what's going on right now because last year's numbers were skewed by JMZ being closed for a third of the year.

Chair DuBois said he heard JMZ was maxed out when school was out.

Manager Aikin said it was partly that and parents are getting into a new routine as kids go back to school. He added that September has always been

SUMMARY MINUTES

the slowest month but it will go up so that November and December become some of the highest months.

Chair DuBois asked if they sold out every day in June, July, and August.

Manager Aikin confirmed this was the case with the exception of some Tuesdays they didn't fill. He said the challenge was members overbooking and those tickets had to be resold. He stated they have shifted to online purchasing because it makes prediction a lot easier, and they can open spaces to members to get tickets that day. He said it is working really well and lines are down but there is still a throughput issue where they are limited by their ticketing system to do 3 [inaudible 25:38] a day. If they could do that every 10 minutes, they could circulate people through the building more efficiently and thus, they are looking at a new ticketing system.

Council Member Filseth asked about the ability to increase the capacity of visitors at one time.

Manager Aikin said it depended on arrival and departure times. They know on average how long people stay and entry every 10 minutes is the most efficient way to move the maximum number of people through.

Council Member Filseth asked how many visits there would be a week if they got rid of all limits.

Manager Aikin said they do not have that data because they have not been able to do that. He added there is an issue with overcrowding and parents start to complain when the exhibit hall gets too many people. Not managing the crowds may drive revenue and ticket sales down in the long run.

Council Member Filseth said there were no easy choices. He didn't know how they could grow the expense line without more visibility on what revenues will be. He conceded it is not a good time to raise ticket prices unless the membership rate is doubled. He asked about the revenue on memberships.

Manager Aikin said there are 3000 members at an average of \$200 each.

Council Member Filseth said more walk-ins are needed but if prices for them are raised, they won't get as many. He wondered what else is getting in the way of walk-ins, like not enough slots. He said it is a lousy time to raise ticket prices as they have removed the birds from exhibits. Regarding expenses, he asked who allocated charges go from \$150,000 this year to \$900,000 next year.

SUMMARY MINUTES

Administrative Services Director Kiely Nose said the estimates in the budget were developed based on past expenses for that division. When they were developing the budget, they did not have the \$150,000 figure. She suspected it had to do with how charges were being allocated once the facility was up and running and that will be investigated for FY 2023 as well as the 2024 budget development.

Council Member Filseth said ultimately it will come from the gas transfer.

Director Nose said the allocated charges were things like utilities, janitorial services, and other back-end areas that have to do with consumption and frequency of the service. She said that will be tracked to ensure appropriate allocation of charges through 2023 and as part of the 2024 budget process.

Council Member Filseth asked about non-personnel expenses that went from \$200,000 to \$400,000.

Manager Aikin was not aware of that. He said they have not been able to spend their non-staff charges due to lack of staffing to manage the contracts to run the facility the way it's envisioned. Until they get full staffing, it's hard to have the time to pull those contracts together, and he stated it just hasn't been done.

Council Member Filseth says it doesn't work if they're only getting 60,000 visits a year.

Vice Mayor Lydia Kou asked if non-personnel expenses are mostly maintenance matters.

Manager Aikin stated animal staff care for the animal habitats but contracting services need to be brought in every year to bolster efforts and include structural pruning of trees.

Chair DuBois asked if it included expenses for feeding the animals.

Manager Aikin replied that was included as well as marketing expenses, non-capital tools and equipment, and other things involved with managing exhibits and animal habitats.

Director Nose clarified Manager Aikin was speaking to expenses in FY 2023. Regarding the \$200,000 seen in the 2022 table, all those expenses were not prorated because some of it is for feeding the animals and they did not know when the animals would come in, but they knew they would be fed prior to the JMZ opening. She stated there was a discrepancy between when things were opened and came online versus what was budgeted. She said it was

SUMMARY MINUTES

important to track all expenses while moving through FY 2023. They didn't have the experience to know what the facility would need in general utilities and now question if utility costs are appropriately allocated now the facility is open. Numbers will be refined moving through this fiscal year now they have some data, and she expected they would be able to report any novel findings as part of the midyear budget review as they would have 6 months of data by that point in this fiscal year and almost a full year of data.

Vice Mayor Kou asked about the facility rental revenue, actuals and adopted, from 2022 and the confidence that facility rentals will increase to \$200,000 in the upcoming year.

Director O'Kane said the number from the actuals is not a full year of reporting and it also took them a while before they felt confident opening the facility for rentals for parties, meeting, and events. She said there was a major shift in operations of the facility going from non-ticketed to ticketed, so they were not able to offer a lot of rentals right away. They first focused on providing the best visitor experience and then began opening it up for rentals. Moving forward, they will be able to do more of that and investigate corporate rentals and ramping up the ability to offer more facility rentals.

Vice Mayor Kou asked about lower-income visitors and the cost of the discounted entrance fee.

Manager Aikin replied discounted admission is \$3 a ticket, which is aligned with a national program called Museums for All and the maximum they can charge as part of that program. About 7 to 8 percent of ticketed people are asking for discounts due to income or disability. There is also a reciprocal membership program with the Association of Children's Museums which also results in a discounted ticket.

Vice Mayor Kou asked if a program could be created to help people who have difficulty paying. She didn't want people to miss out on learning opportunities that could make a lasting impression. She questioned if it would be beneficial for the foundation to consider a pricing and revenue optimization expert to look at the best path forward.

Chair DuBois invited members of the public to comment.

- 1) Jonathan Erman said it was disturbing to read about the expense put into building the JMZ and then see the ticket prices raised. He said it seems to have been successful considering COVID. He lamented the creation of a subscription model for the zoo and said it appeared the Committee is upset it has been more successful than anticipated. Raising ticket prices makes it harder for individuals to experience the

SUMMARY MINUTES

zoo. He said the Committee is seeing revenue they didn't have before but feel it isn't enough and want more.

Chair DuBois asked for clarification around staffing challenges and if there was a proposal on that. He asked if they were thinking of changing part-time positions to full time.

Director O'Kane said people will chose a full-time position with someone else over an hourly position with JMZ, and they have experienced their hourly staff leaving for full-time positions at other institutions. They also have had people relocate out of the area. They currently have a 14-percent vacancy rate at the JMZ. One challenge is they have not experienced the new JMZ fully staffed. She stated Manager Aikin has a vision in place on what is needed once they are fully staffed, and those changes could be proposed next fiscal year.

Chair DuBois asked about leveraging volunteers to supplement staff.

Director O'Kane stated there are volunteers in place and they are working to get more to assist, especially with visitor services. She didn't think it worked for animal care positions.

Chair DuBois asked if retention was a separate issue and if salaries were too low or if there were other issues.

Director O'Kane said it was a matter of not having enough full-time positions.

Manager Aikin added that volunteers and staff are there for the work and they love what the JMZ does. Salary is important in terms of living costs, but they tend to be on the low side around the Bay Area. They actually pay higher than some institutions for some positions and are average for others. He stated it is hard to live there on a half-time salary with multiple jobs and no healthcare.

Chair DuBois asked if the subsidy on this year's budget went up from \$1.2M to \$1.3M, which was confirmed by Director Nose.

Chair DuBois asked if the max capacity of the venue was 500 people, which was confirmed by Manager Aikin. He asked if people have been turned away if they cannot get in.

Manager Aikin said there were more problems with lines before they moved to online ticketing. Currently tickets can be bought in front of the JMZ and there are volunteers and staff to assist. He said it is not a problem and

SUMMARY MINUTES

people get their tickets online and come in and it is a better service for nearly everyone. They help people that walk in.

Chair DuBois asked if other places reserve time slots.

Manager Aikin said the venue is ½ acre and the larger institutions do not have capacity issues. JMZ must manage capacity, and this will likely continue.

Chair DuBois said the issue is less about pricing and more about simplifying the process and not trying to run it like an airline. He asked if the reservation system could be removed and instead reach a certain visitor threshold and then not let people in until some left.

Manager Aikin said the ticketing system is the solution. They cannot track members and their actual tickets right now, but they will with a different system.

Chair DuBois urged staff to think about getting rid of the reservations and manage capacity by counting at the door. He said now may be a good time to do that as it is the slowest time of the year. Regarding membership benefits, it doesn't mention prioritization for reservations. He suggested charging a fee if they didn't show up to make people not overbook.

Manager Aikin said the current ticketing system does not allow members to cancel their reservations. It must be done by a staff person.

Chair DuBois said the discussion has been useful. He said the question is what level of subsidy do they expect to see every year and what do they need to budget for.

Council Member Filseth felt he didn't have enough information to recommend a price change one way or the other. He said a lot hinges on the number of visitors per year and they don't have any confidence in knowing what that number is. He thought it was important to not turn people away. He asked if the entry process needs to be the same on busy holiday weekends as on weekdays during the school year. He encouraged staff to look at that because it is important for everyone who wants to come to the JMZ to be able to.

Director O'Kane agreed with Council Member Filseth. She stated they would like to have a better idea of what the future holds, but they opened JMZ at the beginning of a pandemic which is still going on.

SUMMARY MINUTES

Council Member Filseth said it could be done top down or bottom up. So far, the approach has been top down and now that it's open and they're charging admission, there is an opportunity for a bottom-up approach. They could take what they're seeing now as a baseline and extrapolate from there and then top-down it and see where they meet.

Chair DuBois said once they understood seasonality throughout the year, if they had a bottom-up model, hopefully they would detect pretty early if they were falling behind in terms of being at capacity. He asked if advertising has been done since the launch.

Manager Aikin said they have a marketing contract to do online marketing, but it takes a while to ramp up. They plan to place surgically precise ads in the market aimed at first-time families to try to fill in gaps during the weekdays. They also have some other events and education programs that will be marketed as well.

Chair DuBois said advertising could be ramped up as needed depending on the needs throughout the year.

Manager Aikin estimated end-of-year totals look like 123,000 but changing the ticketing system would change their ability to move people through at a different rate and he could not predict the effects of that or of the pandemic.

Management Analyst Alvarez asked if this was going to Council as an action item.

Director Nose said this is Staff following through on a referral from the City Council. Since the Finance Committee works through the Council body, a motion will need to be made by the Committee. She said a valid motion could be that the report is forwarded to Council as an information report for advisement of completion of the referral as well as a status check. An action is not required, and she said all parties would agree that additional time would be helpful in doing a bottom-up analysis.

Chair DuBois said they could accept the report on consent rather than an information report. He said if they will not be raising the price, they should say they accept the 65-percent cost recovery for this budget year to be explicit that they are not pushing for 100-percent cost recovery this year.

Vice Mayor Kou asked if the report will include further recommendations from the Finance Committee when there is overbooking and perhaps a penalty of a certain amount and the other suggestions made by Council Member Filseth.

SUMMARY MINUTES

Council Member Filseth said he would love to see a chart of weekly visit tallies from the last 9 months.

Director O’Kane said it may be an administrative burden to issue a fee to visitors who didn’t show up for their scheduled time. She preferred to investigate it and address that in the Staff report when it goes to Council.

MOTION: Council Member DuBois moved, seconded by Council Member Filseth to recommend the City Council forward the acceptance of this report to Council and recommends Council direct staff to maintain the current cost recovery levels until staff returns with updated attendance data, recommendations on ticket reservations, and proposed ticket prices.

MOTION PASSED: 3-0

Future Meetings and Agendas

Director Nose said they expect to have the transmittal of the City’s annual CalPERS actuary reports as part of the September 20 Finance Committee Meeting.

Adjournment: The meeting was adjourned at 6:29 P.M.