



Toronto Zoo

**Proposed New
Governance Model**

Final Report

Prepared for: Toronto Zoo

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EXECUTIVE SUMMARY

In September 2012, a report entitled *The Future of Toronto Zoo Governance*¹ recommended that the Toronto Zoo implement a new structure of governance. The concept of a new governance has been discussed with the City of Toronto and, as part of the due diligence process, additional research, investigation, and analysis are required to support a decision to move forward with this new vision for Toronto's Zoo. This report provides the additional research and analysis.

A “LIVING CAMPUS” SUPPORTED BY A NEW GOVERNANCE MODEL

The transfer of the Zoo to an independent non-profit entity (ZooCo) will help to achieve a number of objectives:

- Capitalize on global trends for zoos to shift to a broader conservation and education mandate, using an entrepreneurial approach to create an exceptional visitor experience. ZooCo will accelerate transformation to a “Living Campus” zoo, focusing on education, learning and environmental sustainability, with strong links to surrounding Rouge Urban National Park, and partnerships with educational institutions (e.g. UofT Scarborough, U of Guelph, etc.);
- Strengthen community and private financial support from individuals, corporations and foundations for the Zoo which would be otherwise difficult to achieve within a municipal operating context; and
- Create arms' length independence from the City to enable a “business oriented” context of flexible, entrepreneurial, customer-centric service delivery excellence, and de-politicize facility management and animal care decisions.

SIGNIFICANT SAVINGS FOR THE CITY

Based on review of market opportunities, successful fundraising, and a boost in visitation triggered by the recently arrived pandas, the Business Plan for ZooCo anticipates that over time ZooCo will be able to eliminate (i.e. reduce to zero) the need for an ongoing operating appropriation from the City.

- Currently the City provides approximately \$11 million in annual appropriations to support ongoing operations, plus an annual capital budget contribution of approximately \$6 million to maintain facilities in a state of good repair.
- A review of financial projections indicates that ZooCo financial self-sufficiency is possible. Achieving financial self-sufficiency (and thus eliminating the need for ongoing City appropriation) will depend on ZooCo being able to achieve four critical objectives:
 - a. Successfully re-inventing the Zoo as a “Living Campus” which will help the organization to capture new market and revenue opportunities;
 - b. Leveraging success and a more independent governance model to attract increased private sector development revenues (sponsorships and donations);
 - c. Using exhibits (Panda) and guest experiences to attract more visitors, and mark a symbolic milestone on the Zoo's journey towards a new and improved vision for the Zoo; and
 - d. Proactively managing costs.

Under a “Base Case” forecast of declining annual City appropriations, total savings to the City over a ten year time period would be \$41.8 million. After 2023, the City would save an additional \$11.1 annually by no longer having to provide ongoing appropriations to support ongoing operations of the Zoo.

STRONG CITY OVERSIGHT

Greater independence from the City will enable ZooCo to establish a “business oriented” context of flexible, entrepreneurial, customer-centric service delivery excellence, but there is also a need to ensure that the City retains a necessary degree of oversight, particularly while the City provides ongoing (but declining) appropriations to support the road towards self-sufficiency. Strong City oversight will be supported by the following:

¹ Mansfield Communications Inc. and Schultz and Williams, *The Future of Toronto Zoo Governance*, September 5, 2012

1. **City Representation on ZooCo Board** – The City will have ~~—ay~~ “for pay” in the form of Board representation during the transition period while the City continues to provide ongoing financial support to ZooCo. A strong ZooCo Board structure is proposed that will support ~~—business-oriented~~ independence, effective management practices, community representation, proactive fundraising, achievement of social objectives, and effective Board-Staff working relationships.
2. **A tri-partite “Ground Lease” between the City, TRCA and ZooCo** – the City and TRCA will continue to own the underlying asset, but effective control over the facility (buildings and lands) will be transferred to ZooCo to operate the zoo.
 - o ZooCo will maintain the facility, support accreditations, and preserve the natural landscape with professional management and customer service excellence.
 - o An updated Facility Master Plan will be approved by the City. Any major new facilities not in the Facility Master Plan require City approval.
 - o The City will continue to allocate \$6 million per year (inflation-adjusted) from its capital works budget to ZooCo to cover the cost of State of Good Repair and Service Improvements to City-owned buildings and property over the term of the agreement.
3. **A “Management Agreement” between the City and ZooCo** to define the ZooCo mandate, govern financial, operating and outcome expectations, transfer ownership of the collections, and confirm funding commitments. The Management Agreement would also allow the City to cancel or change the Management Agreement in the face of dramatic or unforeseen negative events;
4. **Capped-Reserve Fund** – To the extent that ZooCo generates surplus revenues, these would be accumulated in a reserve fund that will be used to withstand cyclical shifts in visitation, weather variations, and economic down-turns. This will support self-sufficiency, and re-investment of surpluses to support the long term viability of ZooCo. Strict reserve fund management policies would be respected, and the reserve would be ~~—apped~~ “capped” at \$20 million, to avoid the City providing operating appropriations if they are not needed.
5. **Fully transparent system of policies, guidelines, structures, operational procedures and strategies** that will ensure that ZooCo is fully accountable and responsive to the needs of its partners and constituents within the GTA and beyond.

CHECKPOINTS TO ASSESS PROGRESS

As with any projection, financial self-sufficiency is not ~~—guaranteed~~ and in fact most zoos in North America rely on some form of public sector support to remain viable. In Toronto, there is a unique opportunity for ZooCo to do something that most other North American zoos have not – but this is not a guaranteed outcome. Faced with this uncertainty it is recommended that the City and ZooCo revisit the terms of the Management Agreement and Ground Lease in year 6 or 7 (after the pandas leave) to assess the progress that has been made towards financial self-sufficiency.

This process will allow all parties to re-set the business and financial terms of an ongoing ZooCo-City partnership based on demonstrated progress that has been made to re-frame the Zoo as a ~~—Living~~ “Living Campus”, to attract private sector funding and to achieve self-sufficiency.

This will also create strong incentives for parties to collaborate to achieve the new vision for ZooCo.

- ZooCo will be highly incented to rapidly establish its new business-oriented, independent operations, including an accelerated shift to become a Living Campus, and to maximize private sector partnership and investment; and
- The City’s investment in the Zoo during the initial years of the new shift in governance will allow the Board to build its ~~—ease for support~~ and demonstrate to individuals and business leaders that the City has positioned the ZooCo for success and growth.

During the implementation of the new governance structure and thereafter, the Zoo must remain open, and continue to engage in conservation, species preservation and ongoing education activities. Staff must remain motivated and engaged, with appropriate attention and focus on the transition to ZooCo.

Accordingly this report includes a range of change management and transition governance tools to ensure a smooth transition to the new governance model, with minimal impact on current operations.

INTRODUCTION

BACKGROUND

The Toronto Zoo opened August 15, 1974 in the Rouge Valley. It is currently home to more than 5,000 animals with approximately 300 exhibits in a 284 hectare (710 acre) natural setting. The Zoo has 10 kilometers (six miles) of walking trails and employs 268 permanent full-time staff, 330 part-time or seasonal staff and approximately 400 volunteers. The Zoo is an operating enterprise of the City of Toronto, receiving approximately 20% of its \$53.3 million 2013 annual operating costs via an annual operating appropriation from the City, plus a \$6 million annual capital allocation to maintain and enhance the Zoo facility. The Zoo is currently one of Toronto's top visitor attractions with attendance approximating 1.3 million visitors annually. In addition to its role as a visitor attraction, the Zoo also pursues a broader global mandate regarding conservation, species preservation and education.

Since 1974 the role of Zoos internationally has changed in response to visitor demographics, expanded environmental and educational mandates, and increasing fiscal pressures. To address these changes, while meeting the mandate of the Toronto Zoo, its funding requirements, and expectations of the community, there is an opportunity for a fundamental change to the Zoo's governance structure.

- Best practices in North America have shown that Zoos function optimally when they are managed and governed independently with limited partnerships with various levels of government;
- In September 2012, a report entitled *The Future of Toronto Zoo Governance* recommended that the Toronto Zoo implement a new structure of governance:
 - The structure called for a greater level of independence from the City, including an independent Board of Directors and a new not-for profit entity (referred to in this report as -ZooCo") who will develop the plans and partnerships needed to maintain and enhance the Zoo's position as a world class conservation, education and tourism destination;
 - This new structure is designed to enable a newly formed -ZooCo" to evolve to meet changing visitor expectations and a broadened mandate, while partnering with the private sector to reduce dependence on City of Toronto appropriations;
 - Ultimately, ZooCo will become a -Living Campus Zoo" – an important part of the Rouge National Urban Park (RNUP) – the world's largest urban green space that will grow to become a distinctive and valued community asset.

At its September 5, 2012 meeting, the Board of the Zoo made the following decision regarding the development of a new governance model:

"The Board: Requested the City Manager, in consultation with the Chief Executive Officer, Toronto Zoo and the City Solicitor, to make recommendations to the Executive Committee and City Council on a new governance model for the Toronto Zoo, with the request that the report entitled The Future of Toronto Zoo Governance provide a framework for the requested report".

At its October 2, 2012 meeting City Council adopted the following motion:

"City Council direct the City Manager, in conjunction with members of the Toronto Zoo Board of Management and including circulating the proposal to all Zoo membership holders for comment, to fully explore and consider the recommendations within the report, headed "The Future of Toronto Zoo Governance" being cognizant of the City's financial position and Council direction from the Core Service Review and report to the Executive Committee meeting in January, 2013."

REPORT OBJECTIVES

The concept of a new governance structure has been discussed with the City of Toronto and as part of the due diligence process, additional research, analysis and investigations are being completed to support a decision to move forward with this new vision for Toronto's Zoo.

This report provides additional research and analysis that is required to support a decision to approve the new governance structure. Specifically, the analysis addresses a number of questions including:

- What is the detailed governance structure that will support greater independence of ZooCo, while at the same time ensuring appropriate oversight to ensure transparency, value for money and achievement of public interest outcomes?
- What is the business model of the proposed governance structure, and how realistic is it that ZooCo will be able to reduce its dependence on ongoing operating appropriations from the City?
- What are the key business terms that should form the basis of management and ground lease agreements between the new ZooCo and the City?
- How should implementation and transition be managed?
- What are the primary risks and how should these be managed?

APPROACH AND STRUCTURE OF THIS REPORT

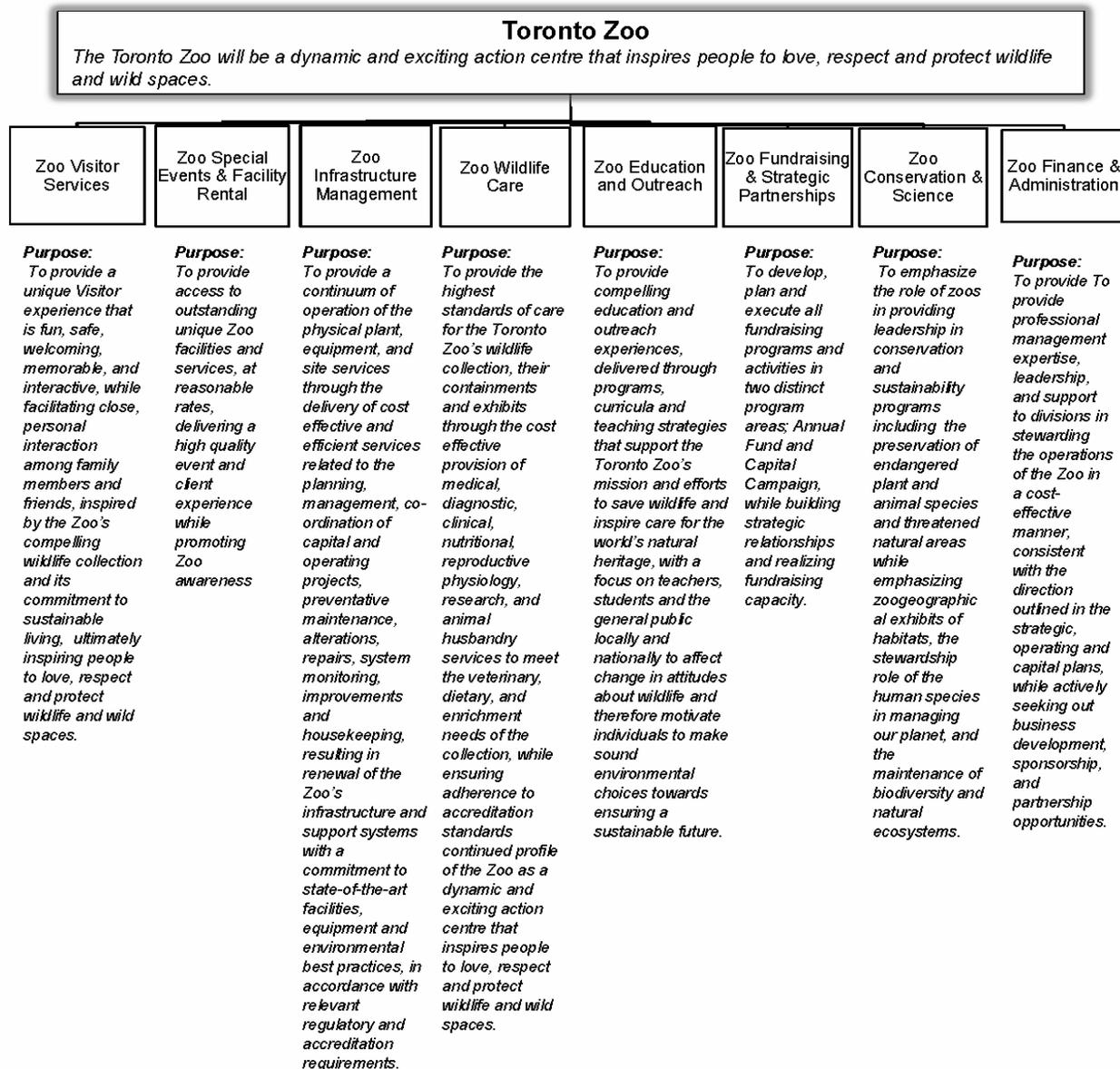
This report is based on a review of the many background reports that have been completed as part of the Zoo's initial governance investigations, as well as an analysis of best practices and leading edge governance models for zoo operations in other jurisdictions. The results are organized as follows:

- Current Status of the Toronto Zoo
- Overview of the New Governance Model
- Business Plan and Prospects for Self Sufficiency
- Detailed ZooCo Governance Structure
- City-ZooCo Management Agreement
- Ground Lease and Management of Capital Assets
- Implementation
- Appendix A: Current Committee Terms of Reference
- Appendix B: Board Committee Roles and Responsibilities
- Appendix C: Draft Transition Project Plan

CURRENT STATUS OF THE TORONTO ZOO

ORGANIZATIONAL STATUS

Currently the Zoo is a Local Board of the City of Toronto, mandated to deliver a number of animal exhibitory, wildlife preservation, environmental and conservation education outcomes. As illustrated in the following excerpt from the City 2012 Operating Budget Analyst Notes, the Zoo has a wide range of programs and services to deliver its mandate.

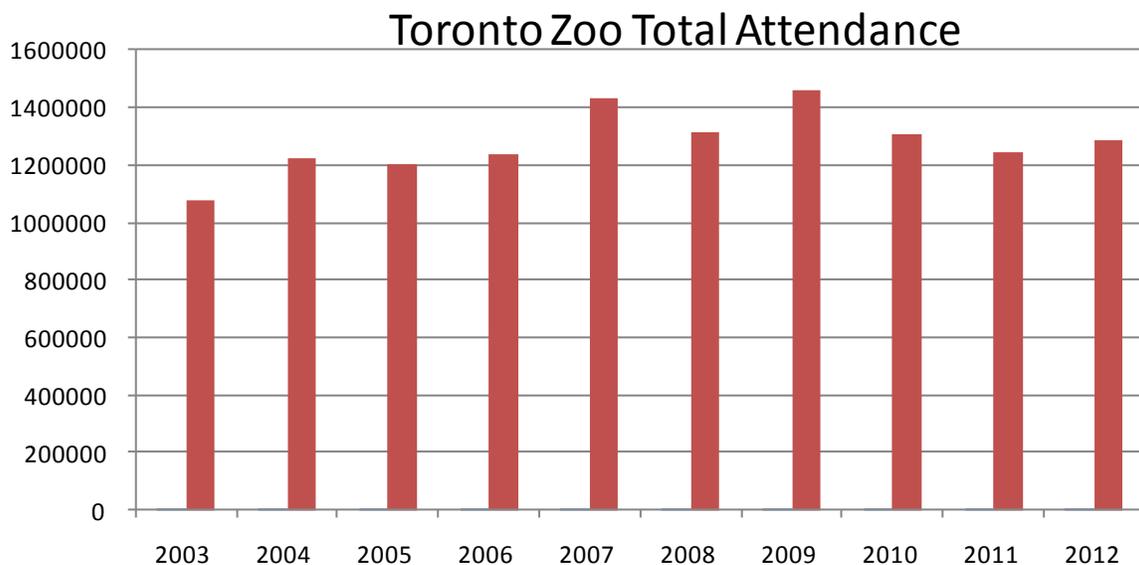


ATTENDANCE TRENDS

In recent years the Zoo has attracted attendance averaging 1,300,000 annually, as well as a consistently high level of visitor satisfaction through:

- Addition of exciting new animals and immersion displays;
- Highly interactive / experiential short-term exhibits;
- Comprehensive special event plans;
- Addition of new Winter based activities to stimulate attendance in the non-peak season;
- Use of social media / database development in efforts to strategically build awareness, attendance and customer loyalty;
- Customer service excellence, way finding, maintenance of the grounds and facilities; and
- Growth of membership base, donor base, and school visits to build affinity and enhance community support.

The economic spending climate in the cultural attractions market has been one of caution over the past few years, triggered by the recession, higher Canadian exchange rate, increased restrictions on cross-border travel, heightened competition from commercial attractions, on-line entertainment and an increase in —“at-home quality” home based entertainment. Despite these challenging market trends the Zoo has continued to maintain its attendance level in the 1.3 million range, with final visitation counts for 2012 coming in at 1.287 million, a 3.7% increase over the previous year.



In 2012 an increase in attendance from the previous year was largely due to new animal exhibits and good weather (such as the penguin chicks, Hudson the polar bear, and white lions). Increasing attendance is also a testament to the role the Toronto Zoo plays as an important centre for conservation, education and tourism. In 2012 the federal government announced RNUP will become Canada's first national urban park. The park is situated within an hour's drive of millions of people and is also accessible by public transit. By virtue of its location, Toronto Zoo stands to become an important feature of the Rouge — a natural destination to visit while camping, hiking or sightseeing in the park.

Another reason for the Zoo's ability to maintain and increase its visitation levels is the consistently high rates of visitor satisfaction, as indicated by responses to the Zoo's 2012 visitor satisfaction survey.

Question	Results
Overall, how satisfied are you with your visit today?	98.7% (98.8% in 2011) of respondents rated the Zoo as offering *good to excellent* value, receiving an average rating of 4.47 out of 5.
Would you recommend the Zoo to a friend?	96.6% of respondents indicated that they would *likely/strongly* recommend the Zoo to a friend with an average rating of 4.66 out of 5.

Of the Zoo's 1.3 million baseline visitors, approximately 60% of this total (780,000 visitors) are general admission visitors with the remaining visitors comprised of member visits, children under 4 and special passes (partnership obligations) visits. Membership, which averages over 30,000 households, represents approximately 25% of the total baseline visits. Members on average visit the Zoo 2.5 times a year.

FINANCIAL CONDITION

Operating Budget

The City Council approved 2013 Operating Budget for Toronto Zoo is \$53.6 million gross and \$11.1 million net, comprised of the following services:

Services:	2012 Council Approved Budget		2013 Council Approved Budget	
	Gross (\$000s)	Net (\$000s)	Gross (\$000s)	Net (\$000s)
Conservation, Education & Wildlife	11,864.1	9,943.8	12,967.6	11,038.3
Marketing & Communications	7,849.5	1,315.9	9,405.9	1,777.0
Operations & Administration	17,004.4	12,520.0	19,051.3	14,167.5
Management and Development	8,809.5	6,336.0	12,004.2	9,530.6
Animal & Endangered Species	136.0		136.0	0.0
Revenue & Recoveries		(19,005.0)	0.0	(25,402.7)
Total Program Budget	45,663.5	11,110.7	53,565.3	11,110.7

The Toronto Zoo's net operating budget for 2013 is within the zero percent growth guidelines established by the City versus the 2012 net operating budget.

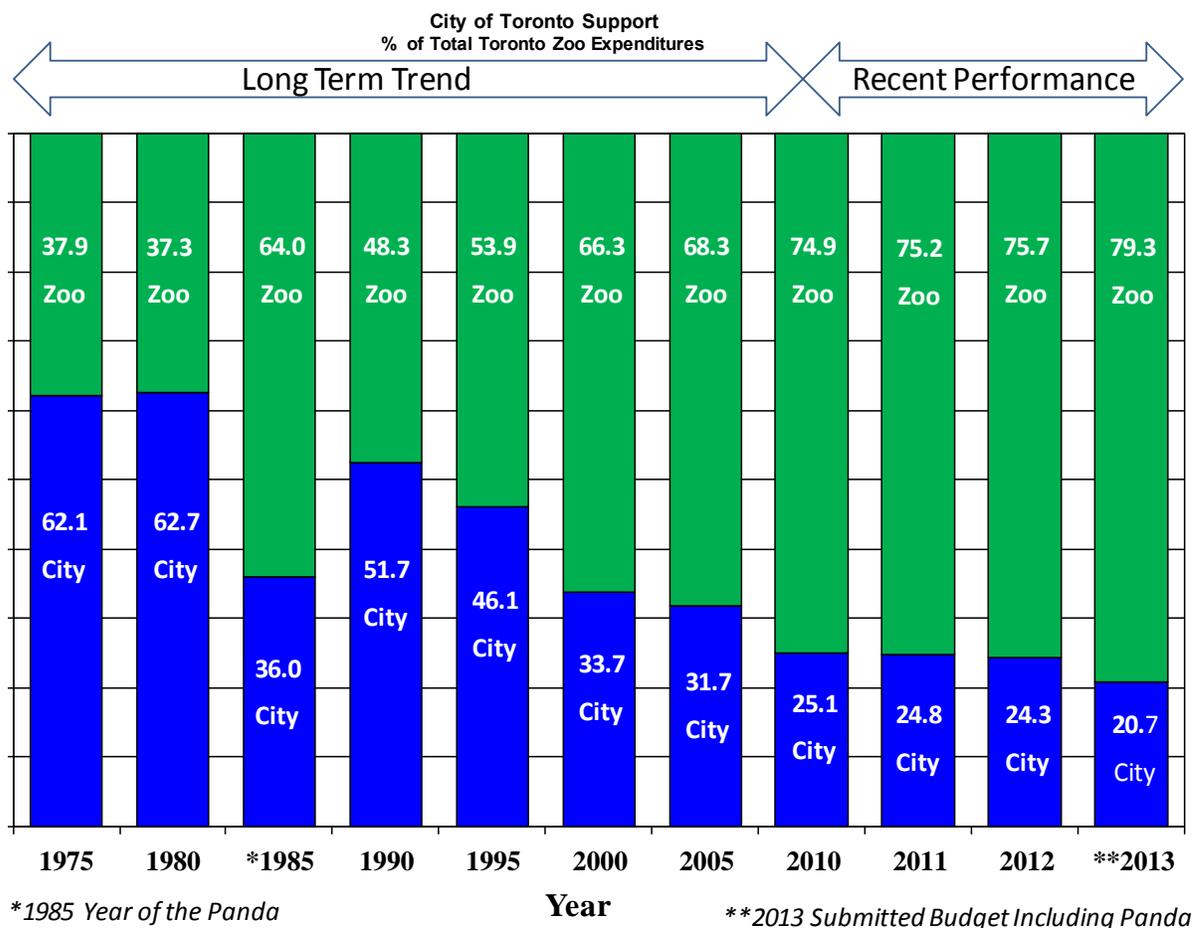
The significant visitor interest in the Zoo anticipated by the Panda exhibit also significantly changes the Zoo's gross operating costs and revenues in 2013. The 2013 operating budget reflects an attendance level of 1,600,000, an increase of over 300,000 visitors versus 2012, in consideration of the anticipated impact of the new Panda exhibit opened in May 2013. As such, the Council approved budget for 2013 reflected revenue changes for admissions, parking, memberships, retail, rides, and food services related to the anticipated attendance levels together with any changes related to approved user fee increases, resulting in an estimated increase of 34% in Revenues and Recoveries.

Salaries and benefits are the largest expenditure category and account for 58% of the total expenditures, followed by Services and Rents at 23%, Materials and Supplies at 14%, equipment at 1.4%, and Cost of Goods Sold at 3.1%. Additional costs due to the Pandas are also factored into the 2013 budget and the

Zoo completed a detailed review of expenditures while attempting to mitigate the impact of reductions on activities necessary for maintaining adequate Zoo operations.

The Toronto Zoo has some flexibility to offset increases in expenditures by increasing revenues through admission price increases, and new sources of revenues such as food and retail points of sale, new rides and special attractions. By offsetting increased expenditures with increased revenues the Zoo has consistently reduced the net expenditures (i.e. the annual City appropriation required to cover the Zoo's operations) over the past 30 years. The Zoo's increase in the share of operating costs that are paid for by an own-source or self-generated revenues has resulted in a steady decline in the City's share of annual operating costs since 1975. Continuously improving self-generated revenues and cost containment has allowed the Zoo to fund close to 80% of its operations via self-generated revenues.

City of Toronto Support – Trend Analysis



Capital Budget and Facility Plan

The 10-Year Recommended Capital Plan is driven by the Zoo's Strategic Plan, its Capital Master Plan and a number of studies, including the North Zoo Site Redevelopment Study and the Animal Health Facilities Study. The 10-Year Recommended Capital Plan includes capital improvement projects required for the Zoo to:

- Continue to offer stimulating and enhanced visitor experiences;

- Maintain a state of good repair; and
- Maintain accreditation status.

The 2014–2023 Recommended Capital Plan totals \$60 million over 10 years (approximately \$6 million annually).

TORONTO ZOO CAPITAL WORKS PROGRAM 2014-2023 (\$000's)												
Project Title (to be placed in priority order)	Carryforward from 2013	2014 Gross	2015 Gross	2016 Gross	2017 Gross	2018 Gross	2019 Gross	2020 Gross	2021 Gross	2022 Gross	2023 Gross	Total 2014-2023 Gross
Debt Supported Projects												
Giraffe House Transition	500											
New Hoofstock House / Exhibit (Old Giraffe site)	500	500										500
Wildlife Health Centre		4,150	4,750	4,100	2,500							15,500
Orangutan II Indoor Exhibits						3,400	2,000					5,400
Gorilla II: Outdoor Display							1,500	1,429				2,929
Breeding / Holding Facility								1,500	1,714			3,214
Hippo House & Exhibit Refurbishment									1,886	3,805	2,500	8,191
Building & Services Refurbishment		500	540	1,250	1,900	1,500	1,500	1,721	1,200	1,095	1,900	13,106
Exhibit Refurbishment		300	300	250	575	400	400	500	450	400	600	4,175
Information Systems		250	150	150	450	300	200	350	300	300	400	2,850
Grounds and Visitor Improvements		300	260	250	575	400	400	500	450	400	600	4,135
Total - Internally Funded Projects	1,000	6,000	60,000									
Externally Funded Projects												
Front Entrance & Food Services		3,000	3,000									6,000
Orangutan III Outdoor Exhibit		1,400	1,780									3,180
Canadian Wilderness				3,774	9,454	11,322						24,550
North Zoo Site - Tropical Americas							4,257	3,998				8,255
Educational Development								1,454	10,175	10,328		21,957
Rouge Valley Interpretive Centre											2,664	2,664
Ride & Revenue Development											2,754	2,754
Total - Externally Funded Projects		4,400	4,780	3,774	9,454	11,322	4,257	5,452	10,175	10,328	5,418	69,360
TOTAL Internally & Externally Funded Projects	1,000	10,400	10,780	9,774	15,454	17,322	10,257	11,452	16,175	16,328	11,418	129,360

The 10-Year Recommended Capital Plan dedicates approximately half of capital funding to State of Good Repair (SOGR) projects to address the renewal need of aging and deteriorating infrastructure, and half for Service Improvement projects including the Wildlife Health Centre and completion of the Eurasia project.

In addition, the Plan includes seven additional "Externally Funded Projects" totaling \$69.36 million to address many significant SOGR issues for the Toronto Zoo. These projects represent key requirements for the sustainability of the Zoo. It is expected that the Zoo will raise funds for these projects via significant fundraising campaigns.

In total, the 10 Year Capital Plan calls for \$129.36 million (\$60 million City-funded plus \$69.36 million self generated) to be invested to maintain, improve and enhance the value of the site, facilities, services and visitor experience.

THE 2013 PANDA EXHIBIT

2013 marks the arrival of the Pandas who will stay at the Zoo for the next five years. They are the first giant pandas to visit the country in 24 years, and experience from zoos elsewhere in the world confirms that pandas have a unique ability to significantly influence visitation. The Pandas arrived in Toronto on March 25, 2013 with a welcoming committee that included the Prime Minister, the Mayor and other dignitaries. According to the Toronto Star:

"The two giant pandas due to arrive at the Toronto Zoo have turned this city upside down with excitement. Giant pandas are a rare species, and they're cute and adorable, so who can blame Toronto for going ga-ga for pandas? But there's much more than looks when it comes to appreciating their arrival. Here then are five reasons why this city should be excited about them.

- *Okay, let's start with the fact they're undeniably cute and adorable.*
- *They are a great boost for the Toronto Zoo in terms of both anticipated attendance and public relations because of the international attention the pandas will get.*
- *Having them come from China can act as a springboard to boost Sino-Canadian relations.*
- *Giant pandas are a rare species, and this gives visitors to the Toronto Zoo an opportunity to learn more about conservation efforts to save the species*
- *Children will come to the zoo in droves to see the pandas. This will afford parents a chance to introduce their kids to other zoo wildlife, broadening their education of wildlife across many species." March 25th, 2013*

Over the past ten months, the Toronto Zoo has been collaborating with the Calgary Zoo, the Canadian government and Chinese authorities/institutions to bring giant pandas to Canada for a cooperative conservation, scientific research and education program.

- Zoo staff have developed a plan for the Toronto Zoo's giant panda exhibit to be situated as part of the Eurasia re-development plan. New Giant Panda exhibit design standards and new insights gained from visits to giant panda facilities, result in an estimated total cost of the exhibit and associated amenities to be approximately \$3 million. In addition, as part of the annual cost to the Toronto Zoo will contribute over the 5 years to the Panda Conservation Fund for panda research and protection in China. This represents a significant reduction in cost from the original giant panda proposal that was in excess of \$16 million for a longer exhibit of pandas at the Toronto Zoo alone;
- The design, build, and finance of the giant panda project did not require any additional new City funding. As well, a shorter construction timeline was achieved to meet the timing of the giant pandas arrival from China. The Toronto Zoo has secured other private and public sector partners to provide some of the capital required to construct the Panda exhibit, interpretive centre and amenities.

Further "buzz" about the Pandas is contained in a Globe and Mail article covering the Panda arrival:

"The arrival of the pandas comes at a critical time for the city-owned facility, which is looking to increase attendance and private donations and become less reliant on municipal funding....The pandas are expected to attract an extra 300,000 visitors this year to the zoo's sprawling grounds on the northeastern edge of Toronto. Zoo officials are hoping that once they get inside the gate and see what else is on offer, they will become regular visitors" March 25, 2013

Clearly there is great expectation that the Panda exhibit will be a significant opportunity for the Zoo to attract more visitors, but more importantly it marks a symbolic milestone on the Zoo's journey towards a new and improved vision for the Zoo to become a Living Campus Zoo.

Although 2013 full year attendance figures are not yet known, year to date visitation statistics suggest that the Pandas have triggered a significant boost in visits and revenues. Between May 17 - Aug 14 of this year (ie since the panda opening), visitation has increased by close to 40% over the same time period last year (803,341 visits in 2013 compared to 582,160 in 2012, an increase of 221,181).

OVERVIEW OF THE NEW GOVERNANCE MODEL

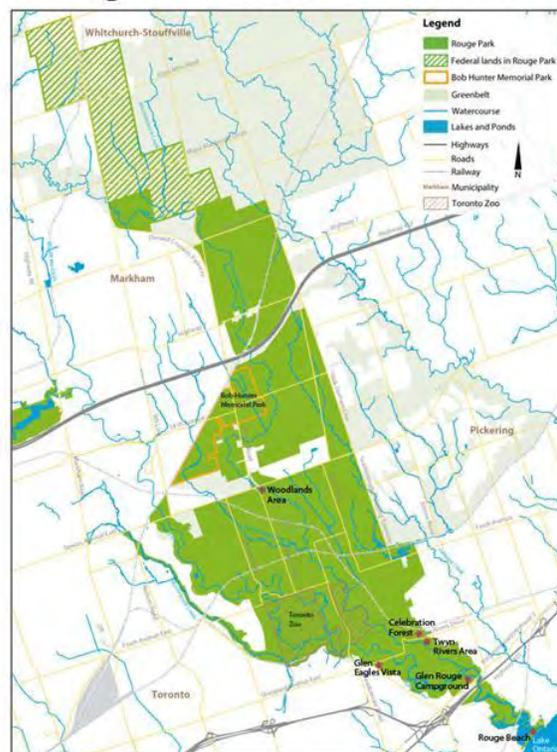
SEPTEMBER 2012 GOVERNANCE REPORT

A September 5, 2012 report –*The Future of Toronto Zoo Governance*” recommended that the Toronto Zoo adopt a new structure of governance. The structure called for a greater level of independence from the City, including an independent Board of Directors created under a new zoological entity that would develop the plans and partnerships needed to maintain and enhance the Zoo’s position as a world class conservation, education and tourism destination. This new structure is designed to enable a newly formed –ZooCo” to meet changing visitor expectations and a broadened mandate, and use partnerships with the private sector to reduce the City’s requirement to provide ongoing appropriations.

Ultimately, the vision is for ZooCo to become:

- A destination of choice for both residents and tourists to experience wildlife and its wild places;
- A –Living Campus Zoo” – an important part of the Rouge National Urban Park – the world’s largest urban green space, becoming a distinctive and valued community asset;
- A global leader that integrates conservation and preservation with scientific research - acting as a centre of excellence in education;
- A flagship institution in Canada for the preservation and protection of exotic and endangered species, and the conservation of their habitats around the world;
- A place to connect more Canadians to nature and create inspirational guest experiences;
- A showcase of best Canadian interactive wildlife exhibits and programs in the world;
- An organization that is both fiscally and environmentally sustainable; and
- Self-sufficient – eventually eliminating the City of Toronto’s operating appropriation to the Zoo.

Rouge National Urban Park



The proposed shift in governance is consistent with trends globally for zoos to transition from publicly owned and managed to publicly-owned but independently managed operations. In most cases, these shifts are driven by the need to change or expand the base of financial support for the Zoo, and/or to allow the Zoo to make changes to adapt to the market more quickly.

The Governance Report identified a number of –success factors” that must be in place:

- **Leadership:** from the City and the community partners with the Board of ZooCo being drawn from business and community leaders and key stakeholders of the GTA;
- **Willingness:** to get the deal done in the best interest of all parties; position the shift in governance from a point of –success, not failure”;
- **Financial Support and Commitment from the City:** the City needs to be positioned as –the major donor” – at least in the short-term, until the private sector donors and contributors embrace the plan. The City needs to offer –stability” in the funding model, at least in the early years of the transition;

- **Creativity:** must be used within the creation of the key financial and operational considerations within the agreement between the City and the ZooCo Board (the new governing entity);
- **A Plan of Action:** a realistic, achievable and sustainable ten-year roadmap”.

OBJECTIVES FOR A NEW GOVERNANCE MODEL

The successful transfer to a new governance model will help the City and the Zoo to achieve a number of general objectives including the following:

- Solidify and/or reduce the City’s financial investment (contribution) by allowing the Zoo to maximize its own-source revenue generation to encourage self sufficiency and a long term sustainable financial model;
- Create arms’ length independence from the City to enable a “business oriented” context of flexible, entrepreneurial, customer-centric service delivery excellence;
- Strengthen private financial support from individuals, corporations and foundations for the Zoo which would be otherwise difficult to achieve within a municipal operating context;
- De-politicize operating decisions to support Zoo management and animal care “best practices”;
- Build positive reserve fund balances to successfully manage shifts in visitation, weather and economic down-turns – ensuring that what is earned at the Zoo is invested in the Zoo;
- Build strong partnerships with private and public sector partners;
- Capitalize on global trends for zoos to shift to a broader conservation and education mandate, using an entrepreneurial approach to create an exceptional visitor experience;
- Establish a fully transparent system of policies, guidelines, structures, operational procedures and strategies that will enable ZooCo to be fully accountable and responsive to the needs of the constituents within the GTA and beyond;
- Support maintenance and re-establishment of accreditations;
- Optimize the tax structure to encourage donations and fundraising; and
- Preserve good working relationships with other organizations operating in the surrounding area and/or that provide ongoing support (e.g. Rouge Park, Federal).

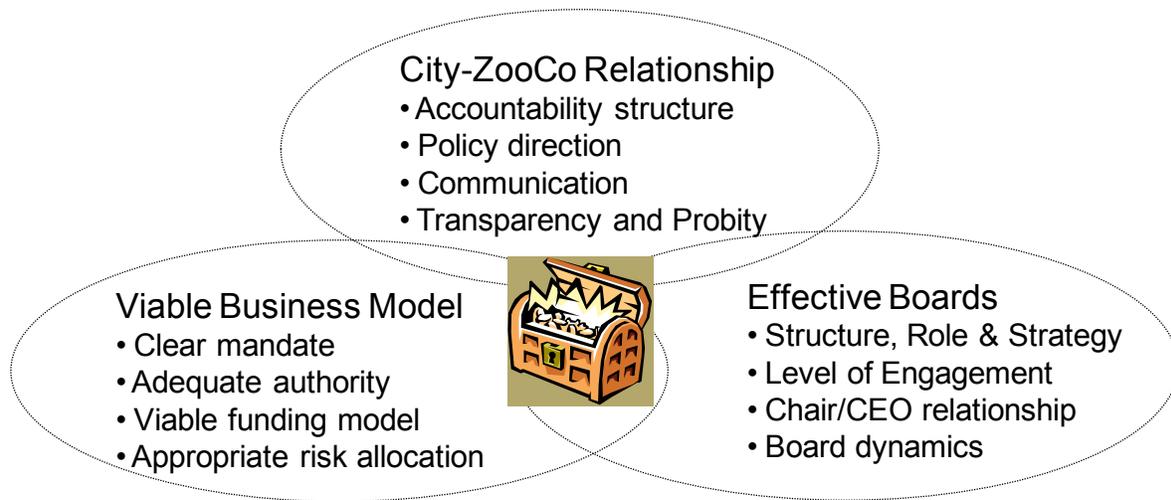
EFFECTIVE AND WELL-BALANCED CITY-ZOOCO RELATIONSHIP

As noted in the “*Future of Toronto Zoo Governance*” report, the transition of zoos from publicly owned and managed to publicly owned and privately managed has been the trend in cities throughout North America. In most cases, the shift was driven by the need to change or expand the base of financial support for the zoo, and/or to allow the zoos to make changes to adapt to the market more quickly than is typically possible in a municipal-decision making environment. Greater independence from the City will enable the ZooCo to establish a “business oriented” context of flexible, entrepreneurial, customer-centric service delivery excellence, but there is also a need to ensure that the City retains a certain degree of oversight.

Ideally, a preferred governance structure will provide ZooCo with required independence while at the same time ensuring City oversight to:

- Achieve broad policy outcomes;
- Ensure value for public money;
- Assure transparent and well run operations; and
- Maintain and enhance the asset.

Lessons from other jurisdictions also suggest that the term, “Good Governance” often means more than simply Board effectiveness. Ideally there needs to be a strong and harmonious relationship between the following three components:



The proposed governance model presented in this report addresses all three of these dimensions, briefly summarized below, and followed by more detailed analysis in the following chapters.

- **Viable Business Model** – Currently the City provides approximately \$11 million in annual appropriations to support ongoing operations, plus an annual capital budget contribution of approximately \$6 million to maintain facilities in a state of good repair. Based on review of market opportunities, successful fundraising, and a boost in visitation triggered by the recently arrived pandas, the Business Plan for ZooCo anticipates that over time ZooCo will be able to eliminate the need for an ongoing operating appropriation from the City.
- **Effective Board Structure** – A ZooCo Board structure is proposed that will support “business-oriented” independence, effective management practices, community representation, proactive fundraising, achievement of social objectives, and clearly defined Board-Staff working relationships. Also, the City will have “pay for pay” in the form of Board representation during the transition period while the City continues to provide ongoing (but declining) financial support to ZooCo.
- **City-ZooCo Relationship** – Today nearly three quarters of accredited zoos in North America are privately managed, often by a not-for-profit enterprise. Ownership and continued financial support is provided by the public sector. In most cases these public-private operating models are implemented via a number of management and ground lease agreements which transfer effective control to the zoo, while at the same time including provisions to protect the public interest. In the case of ZooCo, there are three recommended tools by which the City/ZooCo relationship will be governed:
 1. A “Management Agreement” between the City and ZooCo governing the terms by which the City sets out financial and outcome expectations, transfers ownership of the collections, and confirms funding commitments and mandate for the ZooCo;
 2. A tri-partite “Ground Lease” between the City, TRCA and ZooCo to transfer effective control of the physical asset (lands and buildings) to ZooCo so that ZooCo can operate the Zoo;
 3. Board representation to ensure ongoing connection and linkage with the City (the extent of Board representation will depend on the financial relationship between the City and ZooCo).

The following chapters analyze each of these three dimensions in more detail.

BUSINESS MODEL & PROSPECTS FOR SELF-SUFFICIENCY

A VIABLE AND SELF SUSTAINABLE FUNDING MODEL

Projected Operating Costs

At the current time, relatively few other formerly public zoos in North America have completely eliminated the need for some sort of ongoing financial support from their municipal owner. In order for the Toronto Zoo to test the prospects for achieving financial self-sufficiency a detailed Business Plan has been prepared by the firm of Schultz & Williams – a recognized expert in zoo operations and finance. (reports dated March 18, 2013, plus Addendum dated August 8, 2013)

A critical component of the ZooCo Business Plan is the creation of a defensible projection of future revenues and costs, assuming that the new governance structure is implemented. According to this analysis there are many costs and revenues that are likely to remain relatively unchanged, however there are also a number of areas where significant changes are anticipated.

By year 10, all of the assumptions contained in the Business Plan forecast would need to come to fruition. The reality of fluctuations in both attendance and fundraising due to external factors requires the Zoo to be able to retain its surpluses (through a Reserve) from year to year in order to cover any unexpected shortfalls². A summary of the forecasted operating revenues, expenses and the net surplus/shortfall is presented below³.

Category (All figures in \$ millions)	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Operating Expenditures	51.31	50.99	51.71	52.88	49.33	49.65	50.67	51.70	52.64	53.43
Total self-Generated Revenues	38.77	37.83	38.09	40.93	41.38	40.11	41.95	44.11	45.71	46.37
Base Operating Surplus/(Shortfall)	-12.53	-13.16	-13.62	-11.95	-7.95	-9.55	-8.71	-7.59	-6.93	-7.06
Additional Revenue Opportunities	3.03	4.11	4.86	5.38	3.98	4.26	4.27	4.53	5.53	6.10
Revised Operating	-9.51	-9.05	-8.76	-6.57	-3.97	-5.29	-4.44	-3.06	-1.40	-0.96
City Appropriations	11.61	11.11	10.11	9.11	8.61	8.61	6.11	3.61	0.17	0.17
Surplus/Shortfall after City Appropriations	2.11	2.06	1.35	2.54	4.64	3.33	1.67	0.55	-1.23	-0.79
Accumulated YE Reserve	5.42	7.49	8.84	11.38	16.02	19.35	21.02	21.57	20.35	19.56

Under this scenario – referred to as a “Base Case” forecast – a steady decline in City appropriations is projected, to the point where in year ten (2023), self-generated revenues come close to covering total operating expenditures. Under this Base Case forecast of declining annual City appropriations, total savings to the City over a ten year time period would be \$41.8 million when compared to a scenario whereby the City continues the current \$11.1 million annual appropriation. After 2023, the City would save \$11.1 annually by no longer having to provide ongoing appropriations to support ongoing operations of the Zoo.

It is evident from these projections that sufficient time must be given to cultivate relationships and to communicate with individuals and corporations throughout the Greater Toronto Area, to support the operating needs and growth of the Toronto Zoo. The Board must also have the time to further develop its partnerships to create the “Living Campus Zoo” – including the Rouge National Urban Park and its “Living classroom” with local and regional universities. Thus, the goal of eliminating City operating support will only be achieved with a diversified financial model, the “right” Board is in place and an adequate period of time to transition the operations to the new ZooCo governance structure.

Other observations regarding this “Base Case” projection are as follows:

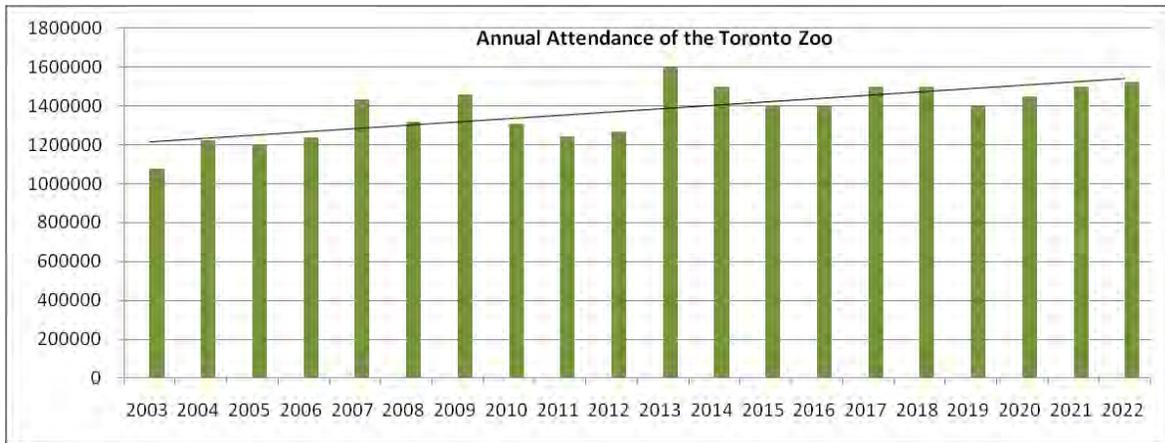
- The Zoo has assumed that outside of the whole panda experience from 2013-2018, that it will grow at a rate in line with both GTA population growth projections and historical attendance. Total

² 2014 beginning year reserve balance of \$3.31 million is assumed, based on positive 2013 surplus from first year of Panda

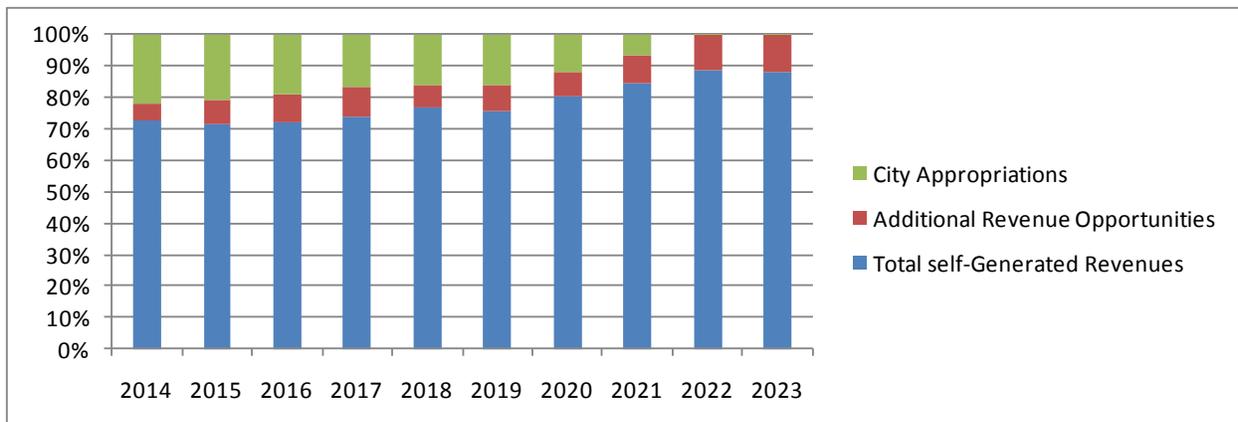
³ All projections are in nominal dollars.

visitation is projected to receive a boost from the pandas during the 2013-2018 period, but then return to a level that is consistent with historic trends.

- The projection has factored in approved price increases for admissions, membership and parking over the 10 year period and believes it will begin securing approximately 15% of its operating revenues from donations, sponsorships, and partnership revenues resulting from the new RNUP by 2022.
- All panda direct operating costs are covered by sponsorships, with multiple sponsors already lined up, and increased attendance in each of the five years they are here.
- Revenue per visitor is also a meaningful number to pay attention to as the Zoo has historically and will continue to for the next 10 years to require a City appropriation to support operations.
- The Business Plan projections for attendance over the next 10 years are reasonable, based on the experience of other zoos with pandas, ZooCo's other planned attractions, the planned integration into Canada's first national urban park at the Rouge, the projected GTA growth rate and the Zoo's historic compound annual growth rate over the last 10 years. Including the projected impact of the pandas, ZooCo attendance is projected to grow by 1.6% annually over the next 10 years, after growing by 1.7% annually for the last 10.



Anticipated revenues, combined with increased attendance and greater cost control are expected to reduce the City's annual appropriation to ZooCo over time, with prospects for achieving self sufficiency in year ten of the forecast. The following illustration shows that the City's share of total ZooCo revenues is projected to decline steadily, reaching zero in 2022.



The total savings to the City over this time period would be \$41.8 million when compared to a scenario whereby the City continues the current \$11.1 million annual appropriation. After 2023, the City would save \$11.1 annually by no longer having to provide ongoing appropriations.

Scenario Tests and Risk Assessment

The Base Case forecast described above contains a number of assumptions, many of which are very important determinants of the prospects for financial self-sufficiency. To test the impact of these assumptions, two additional scenarios – a “Best Case” and a “Worst Case” – were prepared to test the sensitivity of the Base Case projections included in the Zoo’s Business Plan.

Worst Case: Under a worst case scenario we tested the impact of a 5% reduction in self generated revenues, partially mitigated by a 1% decrease in total expenditures. The results of this scenario are presented below:

Category (All figures in \$ millions)	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Operating Expenditures	51.31	50.48	51.20	52.35	48.83	49.15	50.16	51.18	52.11	52.90
Total self-Generated Revenues	38.77	35.94	36.19	38.88	39.31	38.10	39.86	41.91	43.42	44.05
Base Operating Surplus/(Shortfall)	(12.53)	(14.54)	(15.01)	(13.47)	(9.52)	(11.05)	(10.30)	(9.28)	(8.69)	(8.84)
Additional Revenue Opportunities	3.03	3.90	4.62	5.11	3.78	4.05	4.05	4.30	5.25	5.80
Revised Operating	(9.51)	(10.64)	(10.39)	(8.36)	(5.75)	(7.01)	(6.25)	(4.98)	(3.43)	(3.05)
City Appropriations	11.61	11.11	10.11	9.11	8.61	8.61	6.11	3.61	0.17	0.17
Surplus/Shortfall after City Appropriations	2.11	0.48	(0.28)	0.75	2.87	1.61	(0.13)	(1.36)	(3.26)	(2.88)
Accumulated YE Reserve	5.42	5.90	5.62	6.38	9.24	10.85	10.72	9.35	6.09	3.22

Observations:

- Operational self sufficiency is not achieved during the 10 year scenario;
- Pre-appropriation net operating shortfalls range from over \$9 million in the early years, declining to a net shortfall of about \$3 million in year 10 (2023);
- Because ZooCo has little or no opportunity to carry over surpluses, accumulated YE Reserves peak in the year 2019, but then start declining rapidly thereafter.

Our sense is that the likelihood of a “Worst Case” coming to fruition is relatively low based on panda and similar governance shift experiences at other North American zoos and aquariums. Also ZooCo has already had real traction with its fundraising efforts for both the pandas and itself.

Furthermore, the Zoo is now and always has been a leader in conservation and efficiency – the model assumes zero gains in this area over the next 10 years, which would be breaking the historic trend. With a strong cultural focus on conservation, a number of planned efficiency investments in buildings and a plan to turn its manure into energy with a biogas plant, the Zoo seems well positioned to realize gains in this area and meet its goal of carbon neutrality by 2025.

Best Case: Under a best case scenario we tested the impact of a 10% increase in self generated revenues, partially offset by a 2% increase in total expenditures. The results of this scenario are presented below:

Category (All figures in \$ millions)	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Operating Expenditures	51.31	52.01	52.75	53.94	50.31	50.64	51.68	52.73	53.69	54.50
Total self-Generated Revenues	38.77	41.62	41.90	45.02	45.52	44.12	46.15	48.52	50.28	51.01
Base Operating Surplus/(Shortfall)	(12.53)	(10.40)	(10.85)	(8.91)	(4.80)	(6.53)	(5.53)	(4.21)	(3.41)	(3.49)
Additional Revenue Opportunities	3.03	4.52	5.35	5.91	4.37	4.69	4.69	4.98	6.08	6.71
Revised Operating	(9.51)	(5.88)	(5.50)	(3.00)	(0.42)	(1.84)	(0.83)	0.77	2.67	3.22
City Appropriations	11.61	11.11	10.11	7.73	0.00	0.00	0.00	0.00	0.00	0.00
Surplus/Shortfall after City Appropriations	2.11	5.24	4.61	4.73	(0.42)	(1.84)	(0.83)	0.77	2.67	3.22
Accumulated YE Reserve	5.42	10.66	15.27	20.00	19.58	17.73	16.90	17.67	20.34	23.56

Observations:

- Operational self sufficiency is achieved around year 2018 (the final year of the pandas), and then there is a slight operating surplus in years 9 and 10 of the forecast period;

- Because ZooCo has improved self-sufficiency under this scenario, there is an opportunity to accelerate the decline of City appropriations. Under this scenario, City support would only be required for the initial 4 years (2014-2017), allowing ZooCo to accumulate an appropriate \$20 million safety net reserve which can be used to mitigate cyclical downturns in attendance and revenues. Note the highlighted row above that only requires a total of \$40.6 million from the City over the 10 year period (all within the first 4 years), compared to a \$69.2 million requirement under a Base Case, and a \$11.1 million requirement under a status quo scenario whereby the Zoo remains part of the City.

This “Best Case” scenario is conceivable if the Zoo is successful in capitalizing on the panda visit, both in terms of increasing visitation and maximizing contributed revenues, as well as sustaining price increases and visitation levels after the pandas leave.

The analysis and scenario tests suggest that the significant drivers of financial performance, and risk for the Zoo will be:

- Attendance levels;
- Revenues per visitor;
- Effective partnerships and fundraising;
- Expenditure control.

As an attraction, the Zoo’s operating revenues are highly reliant on the number of visitors and how much they spend when they arrive at the Zoo. Admission fees, parking revenues, food, rides and retail sales are all driven by the volume of visitors and the prices set for these items. In terms of admission, the Zoo is on the low end of other regional attractions, so there is likely some room for increases in the future beyond what the Zoo is already planning, if necessary. More importantly, new and improved visitor experiences can be used to help sustain premium pricing after the pandas have left.

Salary and benefits currently make up close to 60% of total budgeted operating expenses, so having staffing flexibility (via seasonal employees) from season to season allows the Zoo to manage any cyclical attendance numbers and limit the need to use cash reserves to cover ongoing operating expenses. ZooCo can closely monitor its attendance related revenues (admissions, parking, food, rides, and retail) and operating expenses in order keep margins at a safe level.

Prospects for Self-Sufficiency

Based on our experience successful governance models with zoological institutions are built on a diversified financial model, including earned (visitor) revenues, contributed revenues (donations and gifts from individuals and corporations) and dedicated annual operating funding from the respective public-sector partner (City, regional, Provincial or Federal).

The planned reliance on new revenues, fundraising, sponsorship, partnerships and cost savings has empirical evidence supporting the Zoo’s assumptions, but this opportunity may be challenging to sustain over the long term unless ZooCo fundamentally shifts its operating model away from a “subsidized city operation” to an independent, business-oriented zoological society. A review of the Business Case projections, supplemented by the scenario tests suggests that there is a unique opportunity for ZooCo to do something that most other North American zoos have not – achieve financial self sufficiency. Under a “Base Case” scenario this future is possible in year 10, and under a “Best Case” scenario, self-sufficiency can be achieved considerably sooner. The potential for both fundraising and attendance related revenues to beat projections is there and if this were to occur, it will be possible to reduce City contributions and gain self-sufficiency years earlier than projected.

Achieving a “Best Case” scenario will depend on the following two main critical success factors:

- Re-inventing the Zoo to capture new market opportunities; and
- Attracting private sector development revenues (sponsorships and donations).

Also, the City’s continued operating investment in the Zoo during the initial years of the new shift in governance will allow the Board to build its “ease for support” and demonstrate to individuals and business leaders that the City has positioned the new Toronto Zoo for success and growth.

RE-INVENT THE ZOO TO CAPTURE NEW MARKET OPPORTUNITIES

One of ZooCo’s first priorities will be to undertake a strategic planning process to develop a comprehensive plan to capture new market opportunities, accelerate the transition to a “Living Campus Zoo”, and attract more private sector revenues. The Strategic Planning process has not started yet, but preliminary work completed as part of this assignment has highlighted a number of opportunities that are likely to be considered. Some of these initial concepts are presented in the following sections, with a caveat that ZooCo’s Strategic Planning process will review these and other opportunities to confirm an exact plan of action for ZooCo to realize its new vision.

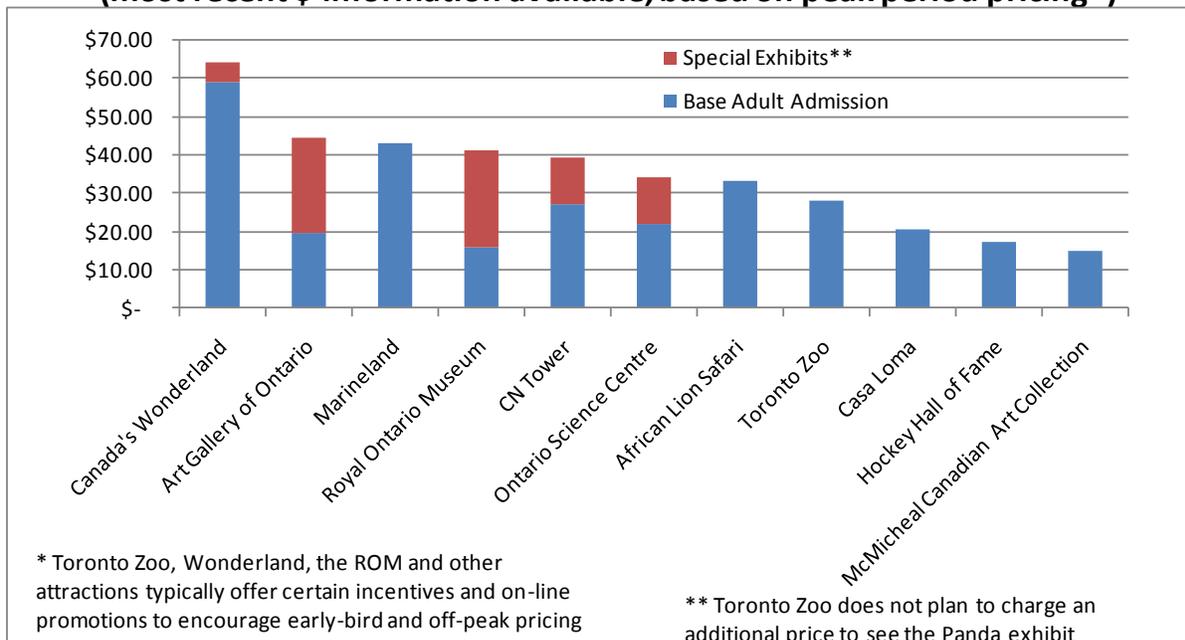
Increased Visitation and Per-visitor Spending

ZooCo will continue to focus on its core business as a visitor attraction that derives its revenues from admissions, parking, food, retail, and rides.

Core demographics - The Zoo’s core customers are families, particularly those with young kids, and school groups. These groups have shown good satisfaction with their experience according to surveys conducted in 2012, with almost all participants saying they would recommend the Zoo to a friend. The Zoo’s current and forecasted admission fees are in line with industry averages, and are less than other regional attractions such as African Lion Safari, the CN Tower, and Canada’s Wonderland. Customer satisfaction survey results show that almost all respondents thought the Zoo was good value for money, a performance level which will be maintained and improved under a new and more business-oriented business model;

- **Membership** – Zoo membership is primarily made up of families who join to take advantage of the value, and to support the mission of the Zoo. Assumptions about future membership related revenues are in line with attendance projections and are reasonable;

COMPARISON OF ATTRACTIONS PRICING – ADULTS (most recent \$ information available, based on peak period pricing*)



- **Market Opportunities** – The market opportunities identified by the Zoo in its Strategic Business Plan include panda related sponsorships, regional partner support, and additional temporary attractions and special exhibits. The Zoo is choosing to focus on the experience it delivers as a way of increasing operating and development revenues. Placing a deeper focus on the visitor experience and creating connections the Zoo is more likely to achieve its stated vision and financial goals. Some of the revenue opportunities could include initiatives such as real life eco-experiences within the park:
 - Lodging accommodations for both Rouge National Urban Park and TZ experiences.
 - Permanent education buildings (laboratories and residences) to be located with the TZ and Rouge National Urban Park.
 - Overnight campgrounds within the park.
 - Ranger led hiking expeditions exploring the natural habitats of animals. Observe deer and coyotes in their natural habitats.
 - Canoeing and fishing expeditions down the Rouge River.
 - Mountain biking trails.
 - Snowshoe & cross country ski trips during the winter months, ice skating pathways, lights
 - Extended stays at Zoo Camp as it expands to accommodate more fulfilling experiences for all age groups.
 - Toronto District School Board "Zoo Credits" for students wishing to enter the field of conservation/biology studies.
 - Weddings, zip lines & behind the scenes tours.
 - Bio Gas operations and interpretation

The Toronto Zoo (TZ) will become an even greater visitor destination as the partners build out the new campus, in addition to current animal education, conservation and preservation programs.

Accelerate Transition to a “Living Campus Zoo”

Ultimately ZooCo’s best prospects for achieving a “Best Case” scenario of financial self sufficiency lie in accelerating the organization’s transformation to its vision to be a “Living Campus Zoo”. ZooCo will then become an important part of the RNUP – the world’s largest urban green space that will grow to become a distinctive and valued community asset. Within this urban outdoors context, ZooCo will need to place an increased focus on its growing environmental and educational mandate to benefit from the site’s unique amenities, to capitalize on growing consumer demand for rich environmental experiences, and to share the innovation and research being done by Zoo staff in these areas.

A “Living Campus Zoo” can leverage society’s rapid adoption of small hand-held, internet connected Smartphones and tablets - capable of sharing videos and pictures, making purchases, and having real-time ongoing conversations with their private networks about their experiences.

- There is a real opportunity to further ZooCo’s educational and environmental goals, while and the same time enhancing its business goals;
- The trend across North American zoos and aquariums, and the attraction industry in general, is to focus on creating experiences that bring guests back multiple times throughout the season; and
- If ZooCo guests could watch videos and interact with staff and animals while they are not at the Zoo, the experience would not end at the gate. ZooCo could leverage this valuable connection into online revenues and donations.

The following ideas will also assist in successfully delivering this educational experience; sharing the Zoo’s great research, conservation and species preservation work:

- The creation of a Zoo app to deliver all of this content and conversation. Advertising revenue potential;
- Getting Zoo staff more connected with the business of the Zoo – the people on the ground have the best ability to generate new ideas due to their day to day interaction with the animals and visitors will create an entrepreneurial culture at the Zoo;

- Give selected staff handheld devices connected to twitter, facebook, and youtube, and encourage the constant sharing of real time Zoo happenings (e.g. vet: “just completed a tiger appendectomy! #myjobrocks #torontozoo” keeper: “male rhino (insert name) just splashed me with mud. What a rascal! #inedashower #torontozoo” +picture, etc.). Would support the goal of deepening the connection between the animals and the visitors, but also between the scientists and keepers doing the vitally important day to day work;
- Partner with a travel company to offer vacation experiences whereby 1-2 times per year, a low number of tourists join Zoo staff on research expeditions – further deepening their connection with the animals’ unique habitats and the scientists who work at the Toronto Zoo. Could be an additional revenue source and support fundraising efforts;
- Begin hosting unique wedding experiences at the Zoo – taking advantage of the Zoo’s natural beauty, as part of the RNUP, and people’s love of animals and nature. Could be an additional revenue source, support fundraising efforts and deepen connection with the Zoo;
- Add value to the property by hosting events or building structures on surplus space (e.g. build a greenhouse, start growing food to be used at new farm to table restaurant and for animal feed, or build a lodge, highlighting the experience of staying in Canada’s RNUP at the Zoo;
- Open a “farm to table” restaurant, demonstrating a commitment to local buying, sustainable agriculture and animal welfare.
- Begin selling value add admission options, such as VIP tours which include behind the scenes access to keepers and animals, a guided tour in a solar powered golf cart, a picnic lunch; and
- Develop surrounding trail system together with Parks Canada.

With greater independence, ZooCo will be better able to identify and benefit from these exciting market opportunities, accelerating a shift to a Living Campus vision, boosting gate revenues, and setting the stage for accelerated financial self-sustainability (i.e. a Best Case financial projection).

Increased Sponsorship and Donations

Equally important to achieving a “Best Case” scenario of accelerated financial independence will be to improve the prospects for attracting private sector sponsorships and donations. Increased “contributed revenues” (donations and gifts from individuals and corporations) has been identified as one of the Zoo’s greatest opportunities to significantly improve its self-sufficiency and long term sustainability. This diversified financial model will require the leaders of ZooCo to attract a Board that is populated by strong business, civic and corporate leaders.

Currently the Zoo operates within a municipal operating context which can discourage donors and partners from contributing donations, gifts and sponsorships. Moving to a more independent governance model, at arm’s-length from the City, will allow ZooCo to be more successful at attracting contributed revenues. Based on international benchmarks, the ZooCo Business Plan indicates that it should be possible for ZooCo to increase the share of contributed revenues from its current 2% of total revenues to potentially 12% over the next six to ten years.

Increasing sponsorships, partnerships and donations can come in many forms:

- Donations/Benefactors - The Zoo’s fundraising and sponsorship efforts will be supported by the shift in governance, based on the experience of other North American zoos and aquariums. Historically, the Zoo has reported difficulties in raising funds from corporate partners and private citizens as a result of its connection to the City, further supporting the notion that an independently managed Zoo would be better able to raise operating and capital funds through these stakeholders than the current governance structure;
- Sponsorship and Partnership opportunities – One significant panda related sponsor has already stepped forward in FedEx Canada. Additional sponsorships and partnerships are likely, given the projected number of visitors and the experience of other Zoos with pandas. The Zoo is aggressively seeking promotional sponsorships; including discussions with corporate partners and sponsors that could be brought on board of a newly constituted ZooCo; and
- The Zoo has also negotiated additional significant sponsors/partnerships valued in excess of \$500,000 with Mandarin Restaurants, the Toronto Star and the Ministry of Tourism, Culture & Sport.

Preliminary investigations by the Zoo and business plan suggest that the Zoo is anticipating a significant increase in its sponsorship and development revenues as a result of the shift in governance.

- Anecdotally, many potential donors have expressed hesitations to donate to the Zoo as a result of relationship with the City of Toronto. Once this limitation is removed, the Zoo has confidence that it can successfully raise \$3-4 million per year for its operating activities;
- Looking around North America at the other zoos and aquariums that have undergone similar governance shifts supports this assumption – Calgary, for example, received \$2.8 million in gross operating donations in 2012;
- Many comparable zoos average approximately 6% of total revenues, and the Zoo is projecting that it will go from 3.1% in 2013 to 8.3% in 2022 under a Base Case forecast – and even more if a “Best Case” scenario can be achieved;
- It is also reasonable to think the Zoo will realize some revenues as a result of its location and association with Parks Canada and University of Toronto Scarborough Campus; and
- The shift to a new governance model, and transformation to a “Living Campus” vision will provide excellent support for development staff because a strong, well run and popular Zoo is easier to fundraise for.

Strengthened Partnerships

- Parks Canada: The Toronto Zoo has maintained long-term partnerships and collaborations with Parks Canada for 40 years. The involvement with Parks Canada has ranged from outreach education to captive breeding and release programs, monitoring, assessment and rehabilitation programs, with shared interests in the conservation, stewardship and education of the Canadian ecosystems.
- Rouge Valley Park - The Toronto Zoo has also been instrumental in assisting Rouge Park with a variety of wetland, animal habitat, educational and more recently animal release programs. Conducting surveys and assessments of turtle and amphibian habitat in the Rouge Valley has been critical to the implementation of rehabilitation projects. Wetlands, turtle nesting areas and habitat have all been created within the Rouge Park boundaries and continue to be monitored by zoo staff for population management and success
- The Toronto Zoo has been working with University of Toronto, Scarborough Campus (UTSC) since the 1970's. In recent years, based on a mutually beneficial relationship the Toronto Zoo collaborates on research, education and sharing resources. The Toronto Zoo is interested in further enhancing the Zoo's relationship with UTSC and developing an MOU to move forward with planning and partnership.
- Increase Regional Partnership Support: Leveraging strong community and business support could generate additional operating revenues through partnerships with other governmental agencies and commissions.

Cost Saving Initiatives

The new governance structure will enable ZooCo to pursue cost management strategies; however, the reality is that only about 15% of total operating costs are “variable”. The majority (85%) of operating expenditures are relatively fixed - 60% of the Zoo's operating expenses are personnel/employment related and at least another 25% of the total operating expenses are fixed annual expenditures (utilities, animal food, vet services, cost of goods for food services and retail sales). Despite this challenge some potential opportunities to reduce the Zoo's current operating expenses include:

- Utilities: Further leverage preferred City rates for the Zoo with “annual growth caps” to minimize the impact of utility rates changes.
- Reduce the size/acreage of the Zoo: Although this is possible, it is generally not a preferred option, because of the direct and potentially negative impact on the quality of the visitor experience. An updated facility master plan will explore potential changes to exhibits/experiences that serve to raise the Zoo's brand and awareness while reducing expenditures.

- Assess opportunities to operate on a more “seasonal” operating schedule: less operating hours in the winter and potential longer hours in the summer – similar to theme parks.
- Partner Advertising & Promotions: If ZooCo could partner with other well-branded companies within the Toronto marketplace with creative advertising strategies, there could be potential savings from ZooCo’s advertising and marketing budget.

RE-VISIT SUSTAINABILITY AFTER PANDAS LEAVE

This chapter has reviewed the prospects for ZooCo to achieve financial self-sufficiency, and thus reduce or eliminate the need for ongoing operating appropriations from the City. Under a “Base Case” projection, financial self-sufficiency is possible, but it will take some time. Under a “Best Case” assumption of self-generated revenues, the City’s subsidy can be eliminated considerably sooner. Achieving a “Best Case” scenario will depend on ZooCo being able to achieve two critical objectives:

- Successfully re-inventing the Zoo as a “Living Campus” which will help the organization to capture new market opportunities; and
- Leveraging success and a more independent governance model to attract increased private sector development revenues (sponsorships and donations).

But there is also a “Worst Case” scenario whereby increased own-source revenues help to reduce, but do not fully eliminate, the City’s annual appropriation. This scenario is, in fact, a common situation faced by zoos across North America, with only a handful of the most successful operations able to achieve full financial independence from the public sector. There is a unique opportunity for ZooCo to do something that most other North American zoos have not – but this is not a guaranteed outcome.

This range of possible financial scenarios strongly supports a process of periodically monitoring the progress of ZooCo to see if the prospects for self-sufficiency are being realized. It is recommended that the City and ZooCo revisit the terms of the proposed Management Agreement between the City and ZooCo (discussed in a later chapter of this report) in year 6 or 7 (after the pandas leave) to assess the progress that has been made towards financial self-sufficiency.

- If financial performance is tracking along a “Base Case” or “Best Case” trajectory then prospects for self-sufficiency, and continued viability of the new governance structure, are good. Under this scenario the City would accelerate the decline (or immediately eliminate) the annual appropriations because City revenues would not be required to support ongoing operations. This would also avoid an accumulation of accumulated reserve funds above a threshold of \$20 million – an appropriate amount to manage cyclical visitation patterns and unforeseen events.
- If a “Worst Case” scenario appears to be coming true then the assumption (and aspiration) of ZooCo independence may need to be re-visited. Under this scenario the City may need to establish an ongoing level of operating support that is lower than today, but it still required to ensure that ZooCo remains viable.

This process will allow all parties to re-set the business and financial terms of an ongoing ZooCo-City partnership based on demonstrated progress that has been made to re-frame the Zoo as a “Living Campus”, to attract private sector funding and to achieve self-sufficiency.

This process also creates strong incentives for all parties to collaborate to achieve the new vision for ZooCo.

- ZooCo will be highly incented to rapidly establish its new business-oriented, independent operations, including an accelerated shift to become a Living Campus, and to maximize private sector partnership and investment; and
- The City’s operating investment in the Zoo during the initial years of the new shift in governance will allow the Board to build its “ease for support” and demonstrate to individuals and business leaders that the City has positioned the ZooCo for success and growth.

AN EFFECTIVE BOARD STRUCTURE

In addition to a viable business model, ZooCo will also need to have a highly effective Board to provide appropriate governance, assist with fundraising, and engage the community. The existing Board of Management for the Toronto Zoo has 12 members of which three are City Councilors and one member is an appointee of the Mayor (currently a councilor). The Board has six committees (two of which are described as Task Forces established for a special short-term need):

- Animal Acquisition Committee;
- Fundraising and Sponsorship Committee;
- Human Resources Committee;
- Policy and Finance Committee;
- Giant Panda Outreach Task Force;
- Governance Task Force.

The terms of reference for these committees are outlined in Appendix A.

This chapter presents a recommended Board structure to establish appropriate ZooCo/City governance, attract and maintain private sector fundraising opportunities, and solicit broad engagement with a wide range of community stakeholders.

DESIGN OF THE NEW GOVERNANCE STRUCTURE

Governance Objectives

The new Board structure is designed to achieve a number of good-governance objectives including:

- Define clear roles and responsibilities for the Board, Committees and staff;
- Build structures and processes that enable a strong and effective working relationship between the Board, staff, volunteers and other key stakeholders;
- Establish a fully transparent system of policies, guidelines, structures, operational procedures and strategies that will enable ZooCo to be fully accountable and responsive to constituent needs;
- Provide independence for ZooCo to operate effectively and efficiently within an entrepreneurial management structure;
- Establish a “value added” role for the Board and its committees;
- Provide adequate “arm’s length” from the City to facilitate private sector investment, community partnerships and successful fundraising;
- Provide “pay for pay” representation and oversight by the City during a transition period while the City continues to provide financial appropriations to ZooCo;
- De-politicize operational decisions concerning animal care to support ZooCo’s effort to re-establish certain accreditations and to foster business driven decision making;
- Foster good working relationships with other organizations operating in the surrounding area and/or that provide ongoing support (e.g. Rouge Park, Federal); and
- Provide oversight and stewardship over public assets (lands and buildings).

Purpose of Board

The purpose of the Board is to provide overall direction, guidance and support to the organization in the planning, delivery and management of its services.

Key Responsibilities of the Board

The following provides a breakdown of the key responsibilities of the Board in overseeing the ongoing operations of the organization broken down by major areas of focus.

Governance

- Establishing broad policies, guidelines and bylaws that provide context and direction to the Board and staff in delivering on the mandate of the organization and managing the ongoing operations;
- Approving the nomination of Directors to the Board including ensuring that there is a process and selection criteria in place for Board nominations and appointing the Board Chair and the Chairs and members of each Board committee;
- Ensuring that there is a Board orientation program in place;
- Assessing annually the effectiveness and contribution of the Board, its members, the Board Chair and the Board Committee Chairs and members, including the processes and structure of the Board;
- Developing the terms of reference for each of the Board committees; and
- Developing job descriptions for the Board Chair and the Chairs of each Board Committee.

Strategy/Business Planning and Operations Management

- Ensuring that there is a strategic planning and an annual business planning process and that they are used to provide oversight, guidance and direction to the organization in achieving its long term goals and objectives and to monitor ongoing performance;
- Approving the annual operating and capital budgets;
- Reviewing and evaluating the operating and financial results of the organization and initiating corrective action as appropriate;
- Overseeing the development of, and approving, the ground lease and management agreement with the City;
- Approving the acquisition/disposal of animals; and
- Performing other duties as may be required by law and/or the policies and activities of the organization.

Stakeholder Engagement

- Supporting and where appropriate, leading, government relations and community engagement;
- Communicating with the stakeholders regarding the organization's ongoing operations and overall performance; and
- Acting as champions and ambassadors on behalf of the organization.

Development

- Working with staff to develop, support and implement a fundraising strategy;
- Cultivation of donors and sponsors, including engagement in fund-raising;
- Review and approve a multi-year fundraising strategic plan;
- Monitor the activities undertaken and the progress made, toward the goals set out in the Plan;
- Provide regular reports to the Board on the progress of the fundraising strategy;
- Provide guidance and input on the vision and future direction of the Zoo for fundraising purposes.

Staff Management

- Developing a job description for the chief executive officer;
- Selecting and appointing the chief executive officer in light of the approved job description;
- Approving the compensation plan for the chief executive officer;
- Establishing an annual process for the monitoring and review of the performance and compensation of the chief executive officer; and
- Ensuring that the organization has a succession plan and process in place and is proactively used by the organization.

Risk Management

- Establishing a risk management framework and system to identify, assess and manage identified operating, financial and other risks that have been identified;
- Ensuring the integrity of the organization’s internal control and management information systems in protecting the assets of the organization; and
- Developing, approving and ensuring compliance with a code of conduct for the organization which is intended to promote a culture of integrity and ethical behavior.

Financial Management

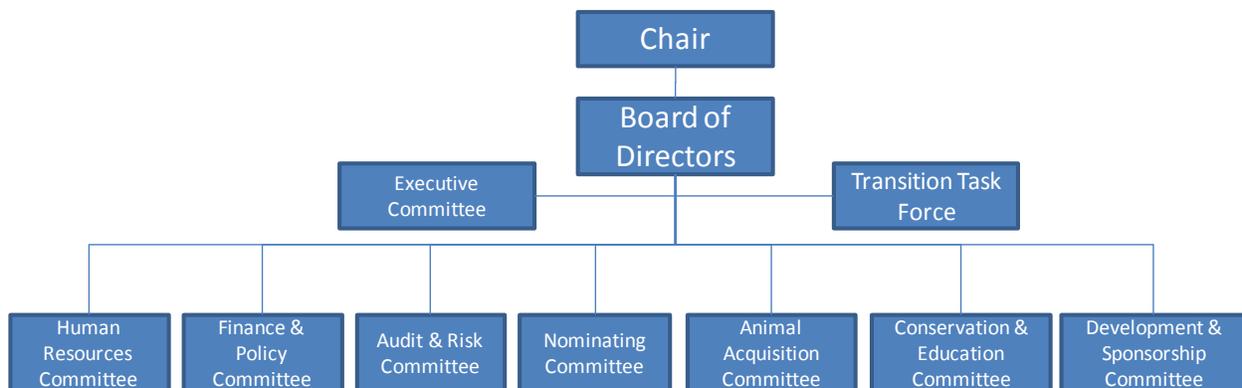
- Reviewing and approving the financial statements and related financial information;
- Appointing the external auditor;
- Reviewing and approving the annual fee policies and structures; and
- Identifying and evaluating alternative revenue sources in support of meeting the Zoo’s overall funding requirements.

These responsibilities are defined for the Board as a whole. However, there is likely to be delegation of some responsibilities to committees and staff; notwithstanding the fact the Board retains ultimate accountability for successful achievement of ZooCo’s mandate (a breakdown of the proposed committee roles and responsibilities is provided in Appendix B).

Board Size, Composition and Structure

To succeed in its goal of becoming a “Living Campus Zoo” ZooCo will require a broad base of community support to foster a “business oriented” culture of flexible, entrepreneurial, customer-centric service delivery excellence. ZooCo will also need to build strong ties with individuals, corporations and foundations that can help raise private financial support for the Zoo. Strong partnerships with private and public sector partners such as the Rouge Park, University of Toronto, senior levels of government will also be required. These functions would all be in addition to typical “good governance” functions of the Board that are designed to ensure that ZooCo fulfills its mandate, vision and is well-run.

The proposed structure of the ZooCo Board is illustrated below. The Board is composed of a number of Committees and Task forces required to effectively govern ZooCo as well as manage the transition from current to future state.



Each of these committees and task forces have defined roles and responsibilities corresponding to the needs of ZooCo. Proposed roles, responsibilities, composition, and operations of each committee and task force are outlined in Appendix B.

With the broader objectives of representation and fundraising then ZooCo’s Board will likely require a large number of seats – up to 30 or more – that that can be offered to community members or benefactors. Large Boards are common in arts and cultural attraction agencies. For example, the AGO has a 27 member board, and the ROM has a 21 member governing board plus a 27 member foundation

board. A larger number is required to ensure widespread participation from different groups and benefactors within the GTA that will allow fulsome representation of the region while offering expertise in fulfilling the mission, goals and objectives of the Toronto Zoo.

But a large Board can also be impractical in terms of day-to-day operational governance because the entire Board would be too big to make operating decisions. It will also be challenging to get so many individuals to meet on a regular basis which could erode attendance and engagement. To overcome these challenges, it is proposed that the Executive Committee be delegated a number of operational and day-to-day decision-making duties, thus becoming the key decision making body overseeing most of Zoo-Co's operational decisions.

The creation of a Development & Sponsorship Committee is intended to maximize Zoo-Co's ability to attract and retain private sector fundraising capabilities.

- A dedicated Development & Sponsorship Committee will help to attract private sector benefactors and donors because there will be a shared purpose and common goal to support the ZooCo's long term financial sustainability of ZooCo;
- The Toronto Zoo currently relies on the "Toronto Community Foundation" to manage its development funds. This will provide assurances to investors and partners that their donations, bequests and sponsorships will be well-managed and used to support long term objectives of the ZooCo, with no risk that their contributions will be used to cover short term operational shortfalls, or be re-directed to a non-Zoo purposes;
- Members of the Development & Sponsorship Committee can be expected to make a financial contribution; and
- There is also an opportunity to protect/shield the assets of the Zoo through the Toronto Community Foundation.

Transitional Board to Include City Representation

During transition to a fully self-sufficient independent organization, the City will continue to provide annual operating appropriations. The proposed Board structure needs to provide the City with appropriate "say for pay" to reflect this investment, and to ensure that policy objectives are achieved. Specific City objectives to be represented by City Board appointees are likely to include the following:

- Appropriate oversight of ZooCo while operating appropriations continue, while avoiding micromanagement of Zoo operations or politicizing decisions;
- Confidence that the ZooCo Board will be appropriate "stewards" of the City's assets and the best interests of the animals and collections;
- Assurance that the City's broad policy outcomes are achieved (e.g. operate as zoo, preserve natural landscape, best-value and stewardship of public funds, professional management, customer service excellence);
- Enable ZooCo to take advantage of the City's purchasing power and shared service support structure where appropriate;
- Maintain the current status of Zoo employees;
- Allow the City to cancel or change the Management Agreement in the face of dramatic or unforeseen negative events; and
- Ensure that the City's and TRCA's assets are maintained and enhanced.

Accordingly, during the transition phase the City will have representation on the Board itself as indicated below:

- The City will have focused oversight in key Board functional areas through participation on the main Board as well as Finance & Policy, HR and Audit committees. Participation on the Board and these committees will:
 - Provide assurances to the City that broad policy outcomes are achieved;

- Assures the City that critical oversight and control functions are in place.
- The City should not have representation on the Development, Animal Care, Conservation & Education or Nominating committees in order to:
 - Depoliticize decision making;
 - Support application to re-accredit ZooCo;
 - Avoid City micromanagement of ZooCo operations; and
 - Avoid potential conflict of interest that could arise if City representatives participate in the fundraising activities of the Development committee.
- The City's representation on the main Board and selected committees should be linked to the magnitude of the operating appropriations with reduced City representation once appropriations sunset. Exact thresholds can be established, but for planning purposes the following parameters might be considered:
 - If the City provides over \$5 million in annual operating appropriations there should be three elected City representatives, one on each of the Finance, Audit and HR committees, as well as a City-staff ex-officio member of the Executive Committee.
 - If the City provides less than \$5 million in annual operating appropriations there should be two City representatives, one on each of the Finance and Audit committees, as well as a City-staff ex-officio member of the Executive Committee.
 - ; and
 - If the City provides no annual operating appropriations there should continue to be one City representative on the Finance committee to reflect the City's ongoing interest as the owner of the asset and continued provision of \$6 million annual capital funding to maintain the facility in a state of good repair, as well as a City-staff ex-officio member of the Executive Committee.
 - .
- City appointments will be political representatives, with some additional staff non-voting appointments to certain committees to ensure access to ZooCo minutes and other documentation.
- There should also be public involvement at Board meetings.

Board Capabilities and Nominating Criteria

The nomination and selection of Board members will take into account the following criteria outlined in the following table. The nomination process will be led by the Nominating Committee of the Board.

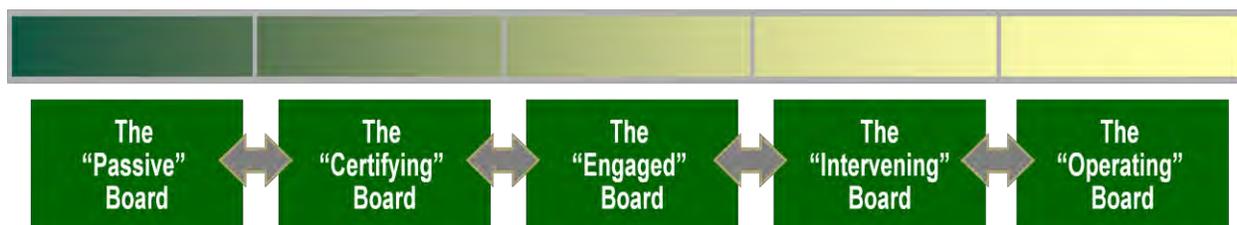
Potential Selection Criteria	
<p>Corporate/Functional Experience</p> <ul style="list-style-type: none"> ● Large private or public corporations (on Boards and/or senior leadership) ● Financial/Banking ● Financial Management ● Strategy Development/Management ● Government Relations ● Policy/Advocacy ● Legal ● Marketing ● Fundraising ● Communications/Media Relations 	<p>Zoo Operations</p> <ul style="list-style-type: none"> ● Zoo programming ● Veterinary ● Environmental/Conservation ● Construction/land Development <hr/> <p>Community Representation</p> <ul style="list-style-type: none"> ● Community Members ● Business leaders ● Youth ● Seniors ● Parents ● Education

It is likely that the specific responsibilities of different Board committees will have their own capability requirements, and this list of requirements may need to be tailored when it comes time to populate the Board's committees and task forces. It is also advisable to have Bylaws that permit appointments of non-Directors onto committees in order to get relevant expertise where required.

BOARD OPERATIONS

Level of Board Engagement

There are varying degrees of Board engagement in the ongoing operations of an organization as illustrated in the following diagram:



Ideally the Board for ZooCo will be an —Engaged Board”. This means that the Board will:

- Work with the CEO and staff to provide insight advice and support on key decisions and implementation requirements;
- Oversee both the overall organization and CEO performance which will involve guiding, supporting and evaluating the CEO;
- Resist and/or avoid micro-managing ZooCo operations;
- Have meetings that involve substantive discussion of the key issues and decisions facing the organization;
- Provide appropriate industry, financial and operating expertise to add values to the decision making process;
- Clarify the roles and behaviors of the Board and the boundaries of Board/CEO responsibilities; and
- Demonstrate strong leadership from the City and the community partners with the Board of ZooCo being drawn from business and community leaders and key stakeholders of the GTA.

Defining the Board and CEO/Staff Relationship

A critical element of successful governance within ZooCo will be to have clearly delineated areas of responsibility between the Board and ZooCo staff. The following table sets out Board-CEO roles in a number of areas of ZooCo business.

Responsibilities	Board	CEO/staff
Strategic		
Set corporate strategic direction (overall mission, vision, long term goals)	●	
Makes key strategic decisions on major/long term issues facing organization	●	

Responsibilities	Board	CEO/staff
Communicates and builds commitment to corporate strategic direction among external stakeholders	●	
Communicates and builds commitment to corporate strategic direction among internal constituents		●
Periodically reviews the company's overall strategy to ensure the organization anticipates and responds to changing operating conditions	●	
Establishes organizational structure and operating systems to ensure the achievement of strategic objectives		●
Approves and reflects desired corporate philosophy, values, and operating environment	●	
Defines core business processes		●
Serves as principal external representative of the company.		●
Board Chair speaks for the Board re Board decisions (ie not the operating decisions)	●	
Develops successful alliances and joint ventures		●
Protects and builds brand integrity		●
Sets strategic marketing direction		●
Sets tone and direction for relations with key external stakeholders	●	
Sets tone and direction for relations with key internal stakeholders		●
Policy		
Translates corporate vision and strategy into organizational policies, directives, and procedures		●
Approves guidelines for use of corporate assets (people, brand, information)	●	
Communicates and builds commitment to organizational policies, directives, and procedures among key external stakeholders		●
Communicates and builds commitment to corporate strategic direction among key internal stakeholders		●
Integrates organizational policies, directives, and procedures into coherent framework		●
Ensures implementation of policies, directives, and procedures		●
Monitors effectiveness of policies, directives, and procedures	●	
Performance Management		

Responsibilities	Board	CEO/staff
Sets overall corporate performance targets (balanced scorecard)	●	
Translates corporate vision, strategy, and performance targets into business unit plans and performance targets		●
Deploys corporate vision, strategy, and performance targets into business unit plans and performance targets		●
Reviews and approves business unit strategies		●
Reviews business unit process performance against world-class criteria		●
Operations Management		
Manages operations of the organization in ways consistent with strategic goals and performance targets		●
Monitors operational progress against performance targets and organizes counter-measures when required		●
Manages infrastructure required to support operating units		●
Manages resources (including people and capital) across lines of business		●
Resolves critical shared-resources issues		●
Manages corporate staff resources		●
Resolves issues of conflict between business units and staff functions		●
Functional Management		
Manages financial information and compliance activities		●
Manages the attraction, retention, and development of a high-performance workforce		●
Manages public relations		●
Process Management		
Ensures that core business processes are in place and working effectively		●
Integrates organization-wide business processes		●
Ensures effective management processes are in place at all levels		●
Ensures that quality tools and methods are used in managing the business		●
People Management		
Ensures the right leadership team is in place, with complementary skills represented		●

Responsibilities	Board	CEO/staff
Leads senior team		●
Develops and monitors succession-planning process for top leadership positions		●
Ensures all critical executive positions are adequately staffed		●
Develops top leadership through selection, coaching, and reinforcement		●
Ensures replacement personnel are suitably trained and developed		●
Information Management		
Transmits top-level decisions throughout organization		●
Serves as spokesperson for corporate messages (internal and external)		●

MANAGEMENT AGREEMENT PROVISIONS

A key goal of a proposed Management Agreement will be to provide independence for ZooCo to operate the Zoo effectively and efficiently, and to facilitate private sector investment, community partnerships and successful fundraising. At the same time the Management Agreement needs to reflect City objectives to:

- Eliminate the City's annual appropriation within a 5 to 10 year period;
- Provide the City with "say for pay" and oversight while operating appropriations continue, while avoiding micromanagement of Zoo operations or politicizing decisions;
- Have confidence that the ZooCo Board will be appropriate "stewards" of the City's assets and the best interests of the animals and collections;
- Ensure that the City's broad policy outcomes are achieved (e.g. operate as zoo, preserve natural landscape, best-value and stewardship of public funds, professional management, customer service excellence); and
- Allow the City to cancel or change the Management Agreement in the face of dramatic or unforeseen negative events.

SUMMARY OF PROPOSED BUSINESS TERMS

The following are a list of draft "Terms" of a Management Agreement between the City and ZooCo. Clearly there will be additional work required to review and finalize these Terms, as well as legal work to turn these business terms into a robust legal document. The objective here is to provide a sufficient level of detail to allow the City and ZooCo to better understand what a management agreement between the two parties should look like and to identify areas where additional business terms should be articulated.

- Duration - 20 years, with a provision to require parties to commence renewal negotiations in year 18 of the agreement;
- ZooCo shall be responsible for the management, operations, repairs and maintenance of the Zoo and will bear all costs associated with these responsibilities;
- ZooCo shall operate the Zoo to a standard at or exceeding historical and industry-wide standards, maintain accreditations, and preserve the natural landscape with professional management and customer service excellence;
- The City shall make annual grants to ZooCo according to the following proposed schedule:
 - 2014: \$11.6 million
 - 2015: \$11.1 million
 - 2016: \$10.1 million
 - 2017: \$9.1 million
 - 2018: \$8.6 million
 - 2019: \$8.6 million
 - 2020: \$6.1 million
 - 2021: \$3.6 million
 - 2022: \$0.1 million
 - 2023 \$0.1 million
- In addition, the City shall continue to provide an annual capital contributions of \$6 million needed for ZooCo to maintain the City's assets in a State of Good Repair, including Service Improvements to City-owned buildings at the Zoo;

- Net ZooCo operating revenues are to be accumulated and leveraged to fund future operations and mitigate future shortfalls;
- ZooCo maintains the right to set fees and prices as it deems necessary, given that such increases are reasonable;
- ZooCo shall have the ability to seek out and secure revenue opportunities from partners such as the Rouge National Urban Park, University of Toronto Scarborough Campus or other academic institutions;
- The City shall retain ownership of all land, real property, buildings and improvements currently owned by the City and being utilized for the operation of the Toronto Zoo. ZooCo shall lease all such land, real property, buildings and improvements according to the terms of a related tri-partite Ground Lease between ZooCo, the City and TRCA;
- ZooCo will take ownership of all Zoo Personal Property, including but not limited to vehicles, equipment, furniture, tools, supplies, merchandise, etc;
- ZooCo will take ownership of all Zoo collections. ZooCo may sell, loan, trade, etc. any component of the Zoo collections, provided that such transfers be done in furtherance of the Zoo's mission and in compliance with AZA/CAZA standards and applicable regulations;
- The City will license royalty free to ZooCo such copyrights, patents, logos, trade-marks, trade-names, trade-secrets, visual art or similar rights currently used in the operation of the Zoo;
- ZooCo will have the right to name any exhibit, building, feature or smaller item within the Zoo;
- At termination or expiration of the Management Agreement, the Zoo collection, the Personal Property, and Intellectual Property as it then exists will revert to the City;
- The City will maintain development rights with regards to utilities, right-of-way, drainage, and flood control. The City shall take all precautions and planning opportunities to minimize adverse effects on Zoo operations;
- All current staff and personnel of the Board of Management of the Toronto Zoo, including collective bargaining agreements, will transfer over to ZooCo;
- ZooCo will carry, at its expense, all necessary coverage and insurances;
- The City shall continue to allow ZooCo to take advantage of its purchasing power and shared services as it deems appropriate;
- The City has the right to audit, inspect and access the Zoo site at any time, given sufficient notice is given to ZooCo;
- ZooCo shall submit annual audited financial statements to the City within 90 days of its fiscal year end;
- Within 18 months of execution of the Management Agreement and Ground Lease, ZooCo shall submit an updated Facility Master Plan to the City. Any major new facilities not in the Facility Master Plan require City approval;
- At the end of year 6 of the Management Agreement, ZooCo and the City shall review the financial performance of the Zoo to determine if the terms of the Management Agreement, including City grant funding, need to be revised in order to maintain the long term viability of the Zoo. This may include eliminating grant funding sooner than projected or extending it for additional years;
- ZooCo shall launch a 10-year capital campaign to solicit private funding for major capital improvements and other projects contained in the Facility Master Plan;
- ZooCo shall have the ability to borrow funds for capital projects if need be, provided it does not encumber any City owned assets;
- The City shall assist ZooCo as a sponsor for any grant or loan applications made; and
- The City shall have the right to cancel or re-negotiate the Management Agreement in the face of dramatic or unforeseen negative events. Participating factors to be clearly set out in Management Agreement, to include, but not limited to:
 - Major disasters
 - Gross mismanagement or failure to comply
 - Consistent shortfalls/inability to achieve financial sustainability
 - ZooCo becomes insolvent

GROUND LEASE PROVISIONS

The goal of the Ground Lease is to transfer effective control of the land, buildings and real property that make up the Toronto Zoo from the City and TRCA, respectively, to ZooCo, and to insure that they are properly maintained, cared for and improved, if necessary. The Ground Lease will replace the existing agreement between the City of Toronto and the TRCA dated June 14, 1961 and the agreement between the City, the TRCA and the Board of Management of the Toronto Zoo dated April 28 1978, pertaining to the lands, buildings and real property of the Toronto Zoo Property.

SUMMARY OF PROPOSED TERMS

The following are a list of draft Terms of a Ground Lease Agreement between the City, TRCA and ZooCo. As with the Management Agreement there will be additional work required to review and finalize these Terms, as well as legal work to turn these business terms into a robust legal document. The objective here is to provide a sufficient level of detail to allow the City and ZooCo to better understand what a Ground Lease agreement between the two parties should look like and to identify areas where additional business terms should be articulated.

- Duration - 20 years, with a provision to require parties to commence renewal negotiations in year 18 of the agreement
- The City and TRCA, respectively, shall retain ownership of all land, real property, buildings and improvements utilized for the operation of the Toronto Zoo. At termination or expiration of the Ground Lease, the Zoo property, as it then exists will revert to the City and TRCA, respectively.
- ZooCo is to maintain the condition of the Toronto Zoo Property at or above historical standards and in line with current building codes and applicable laws.
- ZooCo shall operate the Zoo to a standard at or exceeding historical and industry-wide standards, maintain CAZA accreditation, and preserve the natural landscape with professional management and customer service excellence.
- Within 18 months of execution of the Management Agreement and Ground Lease, ZooCo shall submit an updated Facility Master Plan to the City. Any major new facilities not in the Facility Master Plan require City approval.
- At the end of year 6 of the Ground Lease, ZooCo and the City shall review the financial performance of the Zoo to determine if the terms need to be revised in order to maintain the long term viability of the Zoo.
- ZooCo shall launch a 10-year capital campaign to solicit private funding for major capital improvements and other projects contained in the Facility Master Plan.
- ZooCo shall have the ability to borrow funds for capital projects if need be, provided it does not encumber any City and/or TRCA owned assets.
- ZooCo is to cover all applicable taxes and utilities for the term of the Ground Lease.
- ZooCo shall not mortgage, charge, place a lien or otherwise encumber this Lease or the Toronto Zoo Property.
- The City will allocate \$6 million per year (inflation-adjusted) from its capital works budget to ZooCo to cover the cost of State of Good Repair and Service Improvements to City-owned buildings and property over the term of the agreement. The City shall have the right to request additional information and to audit how its funds are being allocated, provided that it is acting in the long term interests of the Zoo.
- ZooCo will carry, at its expense, all necessary coverage and insurances.
- The City and TRCA shall have the right to cancel or re-negotiate the Ground Lease in the face of dramatic or unforeseen negative events. Participating factors to be clearly set out in Ground Lease, to include, but not limited to:
 - Major disasters;
 - Gross mismanagement or failure to comply;
 - Consistent shortfalls/inability to achieve financial sustainability;
 - ZooCo becomes insolvent.

IMPLEMENTATION

This section of the report addresses the implementation of the new governance structure. It includes communication and engagement, integration of these changes with the Zoo's operations and the implementation plan.

COMMUNICATIONS AND ENGAGEMENT

Through the implementation of the new governance structure the Zoo will be undertaking a significant transformation of its systems and approach to business. Successfully making these changes requires more than changes to the governance structure - it will require a change in mindset and approach to shift how the Zoo operates, and is perceived by their stakeholders including the city, donors, and visitors. To facilitate this change it will be imperative to ensure timely and ongoing communication leading up to, during and after the transition. The intent of this section is therefore to outline relevant stakeholders, key messages and the timing of the communication.

Primary stakeholders/ Audiences

Key stakeholders who must be considered during this transition include:

1. **Employees** - individuals employed by the Zoo on a permanent, contract or seasonal basis. Employees can be employed on a full-time (working >30 hours per week) or part-time basis (working < 30 hours per week). Employees who are on long-term leave (maternity/ paternity, disability etc.) must also be considered;
2. **Zoo Managers and Executives** – individuals who are responsible for providing direction and leadership of the Zoo's operations and employees;
3. **Visitors/ Public** – individuals who visit or may visit the Zoo;
4. **Donors/ Sponsors** – current and potential individuals and/ or organizations who provide monetary support to the Zoo;
5. **The Board** – appointed officials with accountability for overseeing and approving major changes to the Zoo's operations;
6. **City Staff** – individuals employed by the city who have direct dealings with the Zoo and/ or have no direct dealings with the Zoo. Individuals with direct dealings with the Zoo would require a greater level of communication; and
7. **City Council** – elected officials with accountability for overseeing and approving changes to the City's services and operations.

Key Messages

Type of information that needs to be communicated during the implementation can be broken into two categories. The first, referred to as the case for change, focuses on the reasons for the change, the expected benefits and the end vision of the change. The purpose of these messages is to build enthusiasm and engagement about the change.

The second, referred to as project communication, focuses on ensuring that stakeholders are provided with all relevant information related to the implementation of the new governance structure. This communication is directly linked to activities and milestones within the integrated project plan and includes such things as: project status reporting, memos and briefing notes for key decision makers, and updates to staff and stakeholders celebrating milestones and successes.

The level of detail and the format used (e.g. in-person, written) to communicate both types of information will depend on the audience being communicated with. For both types of information, Employees, and Zoo Managers and Executives will be the target audience. The Board, City Council, Visitors/ the Public, and Donors/ Sponsors will receive information on an as needed basis.

The Case of Change

The following key messages have been prepared to support communication related to the Case for Change. To ensure consistency with previous messages, many of these messages build on content from the *Future of Toronto Zoo Governance Report (September 5, 2012)*

Why Change?

- The *Future of Toronto Zoo Governance Report (September 5, 2012)* found that the current governance model does not lend itself to the adoption of best practices and limits the Zoo's future ability to serve its core mandates of education, species preservation, conservation and public enjoyment;
- The report recommended that the Toronto Zoo implement a new governance model under which the Zoo would be managed by an independent Board of Directors; and
- This recommendation is consistent with best practices in North America that have shown that Zoos function optimally when they are managed and governed independently.

Expected Benefits

Implementation of a new governance model is expected to produce the following benefits:

- An opportunity to optimize the Zoo's global programs focused on conservation, species preservation and ongoing education;
- Solidify and/or reduce the City's financial investment (contribution) by allowing the Zoo to maximize its own-source revenue generation to encourage self sufficiency and a long term sustainable financial model;
- Create arms' length independence from the City to enable a "business oriented" context of flexible, entrepreneurial, customer-centric service delivery excellence;
- Strengthen private financial support from individuals, corporations and foundations for the Zoo which would be otherwise difficult to achieve within a municipal operating context;
- De-politicize operating decisions to support Zoo management and animal care "best practices";
- Build positive reserve fund balances to successfully manage shifts in visitation, weather and economic down-turns – ensuring that what is earned at the Zoo is invested in the Zoo;
- Build strong partnerships with private and public sector partners;
- Capitalize on global trends for zoos to shift to a broader conservation and education mandate, using an entrepreneurial approach to create an exceptional visitor experiences;
- Support maintenance and re-establishment of accreditations; and
- Preserve good working relationships with other organizations operating in the surrounding area and/or that provide ongoing support (eg Rouge Park, Federal).

Vision

- To become a "Living Campus Zoo" within Canada's largest urban park;
- Flagship institution in Canada for the Preservation and protection of exotic and endangered species, and the conservation of their habitats around the world;
- Connect more Canadians to nature;
- Showcase best Canadian interactive wildlife exhibits and programs; and
- Be fiscally and environmentally sustainable

From a staffing perspective it will be business as usual, there will be no changes to the staff complement, HR policies/ procedures, wages, benefits etc. **Additional legal and HR investigations will be required to confirm the precise process, legal structure and transition plan.**

Timing

From a timing perspective, communications will align with the three phases of the transition: pre-transition, transition and post-transition. The purpose of communications during each of these three phases is as follows:

Phase 1 (Pre-Transition) - Communication during this phase will primarily focus on building the case for change by emphasizing the importance of the change, expected benefits, and the end state vision. In addition information will be provided around key decisions made, the overall transformation roadmap, timing, and next steps.

Phase 2 (Transition) – Communication during this phase will focus less on the case for change and more on providing updates on the status of changes, accomplishments to date, the planned changes in the next phase, as well as timing, and next steps.

Phase 3 (Post-Transition) – Communication during this final phase will focus on helping to ensure stakeholders understand the new governance structure and their role within it. In addition these communications will focus on building excitement and enthusiasm about the future.

ENSURING SEAMLESS ZOO OPERATIONS DURING TRANSITION

During the implementation of the new governance structure the Zoo must remain open, and continue to engage in conservation, species preservation and ongoing education activities. Staff must remain motivated and engaged, and appropriate attention and focus must be devoted to the Panda exhibit. Change management and project governance will be important tools for enabling the Zoo to ensure a smooth transition, with minimal impact of current operations.

Change Management

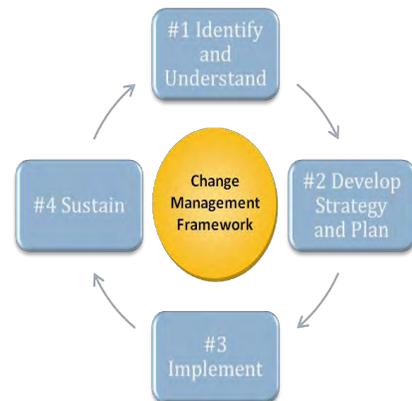
Change Management represents a systematic approach to applying knowledge, tools and resources which support staff and stakeholders to shift from the current state to the desired future state. It is based largely on communications (addressed earlier) and employee/stakeholder involvement. A four step approach to change management is depicted to the right.

Details on the approach, with a focus on steps one and two, in the context of the Zoo's transformation follow.

Step One: Identify and Understand:

The first step of the change management plan focuses on developing an early understanding of the changes required so that a strategy and plan to address these changes can be developed. Highlights of anticipated changes include:

- The creation of a new board comprised of prominent corporate, community and business leaders, including citizen appointments from the City of Toronto, and University of Toronto Scarborough Campus;
- The development of a plan to fulfill the Zoo's vision to be a global leader in conservation, preservation, scientific research, and a destination to experience wildlife;
- The development and negotiation of new management, ground lease and capital assets agreements;
- The creation of new partnerships and funding opportunities with the private sector;
- Reduced reliance on the City's financial investment and greater emphasis on support from individuals, corporations and foundations; and



- More autonomy over decisions and operations, and opportunities for a more independent, entrepreneurial spirit.

These activities also coincide with a number of exciting milestones in the Zoo's history including:

- The federal government's announcement that that Rouge National Urban Park (RNUP) in the spring of 2012 which the Zoo is part of, will become Canada's first national urban park; and
- The arrival of the Panda's from China on March 25, 2013 which are expected to have a significant impact on visitor levels.

Step Two: Develop Strategy and Plan

Considering the changes that are required, as well as other available information (such as findings in the Future of Toronto Zoo Governance, September 2012) there are three factors that will be critical to ensuring the success of this transformation. These include:

- ▶ **Leadership** – ensuring that Zoo management and executives are well equipped and supported to enable change, and implement all aspects of the implementation plan;
- ▶ **Willingness and Understanding** - ensuring all relevant stakeholders understand and are working towards implementing the new governance model in a manner that is in the best interest of all parties, and positioned as a point of “success, not failure”;
- ▶ **Creativity** – encouraging all stakeholders to think differently and creatively in terms of what is possible and in identifying new partnerships and opportunities to increase the Zoo's financial independence.

A discussion of key activities associated with each of these three factors follows.

Key Activities – Leadership

The purpose of these activities will be to ensure executives, and managers are equipped and supported to enable change. Activities include:

- Identifying opportunities to involve Zoo managers and executives in all aspects of the transformation, including through their participation on project committees;
- Building formal accountability into the leadership team's performance plans focused on ensuring success of the transformation;
- Providing communication materials and supports to ensure executives and managers are supported to communicate with staff; and
- Providing individual support and coaching to the managers and executives (including peer mentoring), to ensure full capability to manage change activities.

Key Activities – Willingness and Understanding

The purpose of these activities will be to ensure all relevant stakeholders understand and are working towards implementing the new governance model in a manner that is in the best interest of all parties.

Activities include:

- Identifying opportunities to involve stakeholders in all aspects of the transformation, including through their participation on project committees (where applicable)
- Regular and ongoing communication
- Actively seeking and creating opportunities for feedback, comments/ concerns and questions

Key Activities – Creativity

The purpose of these activities will be to encourage stakeholders, particularly employees and Zoo managers and executives to think differently and creatively in terms of what is possible and in identifying new partnerships and opportunities to increase the Zoo's financial independence.

Activities include:

- Identifying and communicating challenges for staff to solve;
- Hosting information sessions to highlight and raise awareness of successful creative and innovative solutions at the Toronto Zoo as well as other like organizations (other Zoos, cultural sites);
- Identifying opportunities to showcase and reward creativity;
- Creating opportunities for staff from different departments within the Zoo to work together in order to increase the number of perspectives brought to the table;
- Providing staff with opportunities to learn about other aspects of the Zoo, outside of their department;
- Hosting employee challenges to encourage innovation and creativity; and
- Incorporating innovation and creativity into staff performance plans (e.g. assigning accountability for introducing something new or creative).

Step Three – Implement and Step Four - Sustain

The final steps of the change management approach are focused on implementing and sustaining the change. This includes carrying out activities identified in step two, and sustaining the desired change. Tactics that can be used to sustain change include:

- ▶ Celebrating successes
- ▶ Consolidating improvements (to support marketing efforts)
- ▶ Addressing areas requiring additional focus
- ▶ Institutionalizing new approaches

TRANSITION COSTS

Based on studies for North America zoos, Shultz & Williams estimates that the "transition costs" of shifting to a new governance model are likely to range from \$3MM - \$4.5MM. Typically, transition costs would include the "start-up" costs for the following:

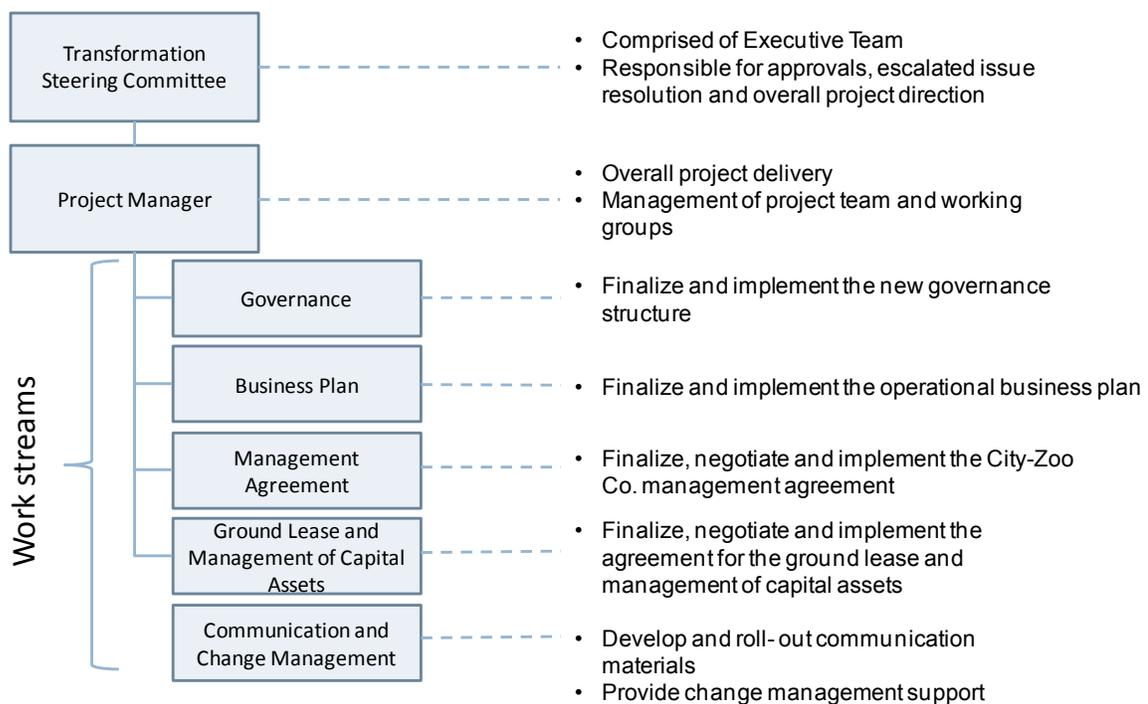
- Technology: new phone system, computers/upgrades, new servers, web-enhancements, software licenses, consultants.
- Signage/Graphics: new banners at the Zoo; printing of new maps, brochures and on-site signs (critical for the Zoo's branding)
- Equipment for Operations: heavy equipment for maintenance & repairs, vehicles for maintenance & operations
- Training: employee and volunteers
- Facility Master Planning: updating the Zoo's current plan
- Start-Up/Working Capital: transition planning, human resources/benefit consultants, equipment/vehicles, supplies and services
- Visitor Amenities & Experiences: new short-term marketing experiences and programs that creates a reason to visit the Zoo

In the case of the Toronto Zoo, it is likely that these costs would be funded jointly by the City and the new ZooCo and, depending on the specific terms of the Management and Ground Lease agreements, some of these costs could be reduced. For example, the Zoo already has

technology, fleet, signage, etc, so some of these costs may be lowered by transferring these assets to ZooCo. We note that the cost of accrued employment benefits (accrued vacation, sick leave, pension liabilities) are NOT included in the Shultz & Williams estimate, so the magnitude and sharing arrangement of these costs would need to be quantified.

PROJECT IMPLEMENTATION AND GOVERNANCE STRUCTURE

Recognizing that the implementation of the new governance structure is contingent on the completion of a number of activities and that the transition to the new structure must not interfere with ongoing Zoo operations it is recommended that the Zoo create a temporary project management office with responsibility for overseeing and managing all aspects of the transformation. The proposed governance structure and the corresponding roles/ responsibilities of project participants are detailed below. It is envisioned that in addition to the overall project manager, each work stream would have a lead that would attend regular status meetings, facilitated by the project manager, to ensure coordination across all project activities.



INTEGRATED PROJECT PLAN

A draft integrated project plan has been prepared to facilitate the implementation of the new governance structure. The plan consists of a number of streams of work which align with one of the five work streams described in the previous section. Within each stream of work critical activities have also been captured. In addition, the plan provides a means for ensuring that all activities are sequenced appropriately, and interdependencies across work streams are identified and managed. The plan includes:

- i. Key work streams and activities;
- ii. Timing and milestones;
- iii. Roles and responsibilities (where applicable).

The work plan is in Draft form at this stage and presented in Appendix C. It is expected that the detailed transition road map will be finalized in consultation with the City and Toronto Zoo staff.

APPENDIX A: CURRENT COMMITTEE TERMS OF REFERENCE

ANIMAL ACQUISITION COMMITTEE TERMS OF REFERENCE

Membership: The Animal Acquisition Committee shall be comprised at least five appointed members of the Board of Management, one of whom shall be the scientist representative on the Board.

Responsibilities:

AAC1. Review of curatorial recommendations to acquire or dispose of animals, when those transactions will add a new species to the collection; eliminate a species from the collection; or will exceed established expenditure limits.

AAC2: Ensure compliance with the Zoo's animal acquisition/ disposition procedures as set out in the "Animal Acquisition/Disposition" policy (A&P-001).

AAC3. Review periodically the Zoo's animal acquisition/disposition policies and procedures in relation to industry standards and, in particular, the guidelines of the Association of Zoos and Aquariums and the Canadian Association of Zoos and Aquariums.

Quorum: Three Committee members shall constitute a quorum.

Meetings: As needed, following the Board of Management meetings.

Approved by the Board of Management 2010-01-21

FUNDRAISING & SPONSORSHIP COMMITTEE

TERMS OF REFERENCE

Membership: The Fundraising & Sponsorship Committee shall be comprised of at least two appointed members of the Board of Management and other external members who have experience in fundraising, investment management, or particular expertise relevant to the Committee mandate.

Responsibilities:

Strategy

- FS1 Provide guidance and input on the vision and future direction of the Zoo for fundraising purposes.
- FS2 Discuss and make recommendations to the Board of Management on major fundraising programs.
- FS3 Review of recommended members appointed to the Capital Campaign Committee and the Endowment Management Committee.
- FS4 Provide regular reports to the Board of Management on the progress of the Capital Campaign.
- FS5 Contribute ideas for fundraising, (e.g. events, activities, prospects).
- FS6 Together with the Capital Campaign Committee, assist in identifying and securing suitable corporate and government partners.

Meetings: As needed.

Approved by the Board of Management 2009-01-22

GIANT PANDA OUTREACH TASK FORCE
TERMS OF REFERENCE

Membership: The Giant Panda Outreach Task Force shall be comprised of members of the Board of Management and members of the community who have particular expertise relevant to the Task Force mandate (e.g. educational, cultural, business, youth etc. sectors).

Responsibilities:

GPO1 Provide guidance and advice on a community outreach strategy for the Giant Panda program.

GPO2 Provide expertise and assistance to staff regarding cultural programming, partnerships and events to enhance and support the Giant Panda outreach program.

GPO3 Provide guidance, advice and assistance to staff on Giant Panda marketing activities to reach various groups and generate visitation to the Giant Panda exhibit.

GPO4: Review project work plans and receive status reports from staff. GPO5.

Provide updates to the Board of Management as required.

Meetings: As needed.

Term: As a Task Force, this is a time-limited committee, anticipated to disband shortly after the Giant Panda exhibit opens.

Approved by the Board of Management 2012-07-05

GOVERNANCE TASK FORCE

TERMS OF REFERENCE

Membership: The Governance Task Force shall be comprised of up to five members of the Board of Management and other Board members who wish to participate.

Responsibilities:

- G1 Review and develop various governance model option(s).
- G2 Provide guidance, advice and information on governance model option(s) to the Board of Management and the City.
- G3 Review and develop a new operating agreement with the City that provides for the autonomy of the Zoo Board in operating matters, including animal management affairs.
- G4 Provide reports to the Board of Management on progress, including recommendations.

Meetings: As needed.

Approved by the Board of Management 2012-04-05

HUMAN RESOURCES COMMITTEE

TERMS OF REFERENCE

Membership: The Human Resources Committee shall be comprised of the Chair, Vice Chair and one other member of the Board of Management preferably with human resource expertise.

Responsibilities:

Performance Management and Succession Planning

HR1 Annual review of Chief Executive Officer performance and recommend CEO compensation, including allowances and benefits.

HR2 Recommend a senior management succession plan and responsibilities associated with succession planning.

Strategy

HR3 Provide the CEO with strategic direction for upcoming collective agreement negotiations.

Quorum: Three Committee members shall constitute a quorum.

Meetings: Two meetings per year or as needed.

Approved by the Board of Management 2011-11-24

POLICY AND FINANCE COMMITTEE

TERMS OF REFERENCE

Membership: The Policy and Finance Committee shall be comprised of at least three appointed members of the Board of Management.

Responsibilities:

Corporate Governance

PF1 Review of corporate governance structure periodically.

Strategy

PF2 Review of annual strategies.

PF3 Review progress to strategic imperatives as set out in the strategic plan.

PF4 Recommend management reporting processes to the Board that align strategies, goals and performance metrics.

Financial Control, Audit and Risk Management

PF5 Review of operating and capital budget submissions to the Board of Management and verification of alignment to strategic imperatives.

PF6 Review of audit reports and year-end financial statements.

Meetings: Four meetings per year or as needed.

Approved by the Board of Management 2011-11-24

APPENDIX B: COMMITTEE ROLES AND RESPONSIBILITIES

Committee	Role	Responsibilities	Composition	Operations	Comments
Executive	<ul style="list-style-type: none"> To act for the Board on matters arising between regular Board meetings and to deal with other matters as delegated by the Board. 	<ul style="list-style-type: none"> Provide ongoing oversight, guidance and direction to the Zoo administration, as required, between regular Board meetings in light of the approved strategy and business plan; Review with management any significant litigation, claim or contingency which could have a material effect on the Zoo and bring such matters to the immediate attention of the Board; Set annual goals, conduct evaluation and determine compensation of the CEO; Support the work of Board committees through coordination and communication; Assess any proposed major initiatives not in the annual budget to ensure alignment with the Zoo's long-term direction and make recommendation(s) to the full board; Act on any other matter delegated by the Board. 	<ul style="list-style-type: none"> Chair; Vice Chair; 7 Standing Committee Chairs; Chair, Transition Task Force; One ex-officio non voting staff appointed by City. 	<ul style="list-style-type: none"> Meeting frequency: tbc; Preparation and distribution of minutes: tbc. 	
Finance & Policy	<ul style="list-style-type: none"> To oversee the financial systems and controls to ensure protection of corporate assets, compliance with legal, ethical and regulatory requirements and the efficient and effective use of resources. 	<ul style="list-style-type: none"> Establish short and long term financial plans for the Zoo; Review and approve the annual operating and capital budget goals and assumptions; Recommend management reporting processes to the Board that align strategies, goals and performance metrics; Review monthly/quarterly financial performance/ statements and set policies as necessary; Review the annual financial statements of the Zoo prior to presentation to the Board; Review financial policies, practices, procedures and decisions; Review the adequacy of the internal control systems for safeguarding assets, including the review of policies and procedures; Review the level of compliance with legislation, regulations, corporate objectives, policies and ethics and adequacy of systems established to ensure compliance. 	<ul style="list-style-type: none"> Chair; Vice Chair; 4 additional members; One member appointed by City. 	<ul style="list-style-type: none"> Meeting frequency: tbc; Preparation and distribution of minutes: tbc. 	
Human	<ul style="list-style-type: none"> To oversee HR administration and the 	<ul style="list-style-type: none"> Review HR policies, practices, procedures and decisions; Review management and program performance regarding 	<ul style="list-style-type: none"> Chair; Vice Chair; 	<ul style="list-style-type: none"> Meeting frequency: tbc; 	

Committee	Role	Responsibilities	Composition	Operations	Comments
Resources	efficient and effective use of human resources.	<p>the efficiency, effectiveness and economy in the use of resources;</p> <ul style="list-style-type: none"> Review the effectiveness of corporate reporting systems regarding administrative and program performance; Recommend a senior management succession plan and responsibilities associated with succession planning; Provide the CEO with strategic direction for collective agreement negotiations. 	<ul style="list-style-type: none"> 4 additional members; One member appointed by City. 	<ul style="list-style-type: none"> Preparation and distribution of minutes: tbc. 	
Audit	<ul style="list-style-type: none"> To oversee the annual external audit of the Zoo. 	<ul style="list-style-type: none"> Select the external audit firm; Review audit reports; Assess organizational risks and ensure they are managed effectively. 	<ul style="list-style-type: none"> Chair; Vice Chair; 4 additional members; One member appointed by City. 	<ul style="list-style-type: none"> Meeting frequency: tbc; Preparation and distribution of minutes: tbc. 	
Nominating	<ul style="list-style-type: none"> To ensure that the Board is composed of qualified and skilled members capable of, and committed to, providing effective leadership to the Zoo 	<ul style="list-style-type: none"> Conduct an assessment of the knowledge, skills and competencies of the current Board to identify any gaps in the current Board composition and operations; Develop and recommend selection criteria for Board and Board Committee members for Board approval; Identify and recommend a list of candidates for appointment to Board positions that reflects the required mix of knowledge, skills and competencies necessary to provide effective governance for the Zoo; Make recommendations for the Chair and Vice Chairs of the Board and all Board Committees and the Committee membership to the Board?; Make recommendations on ex-officio standing committee members. 	<ul style="list-style-type: none"> Chair; Vice Chair; 3 additional members. 	<ul style="list-style-type: none"> Meeting frequency: tbc; Preparation and distribution of minutes: tbc. 	
Animal Acquisition	<ul style="list-style-type: none"> To provide oversight, guidance and direction in the acquisition of the Zoo's animal collections. 	<ul style="list-style-type: none"> Review of curatorial recommendations to acquire or dispose of animals, when those transactions will add a new species to the collection; eliminate a species from the collection; or will exceed established expenditure limits; Ensure compliance with the Zoo's animal acquisition/disposition procedures as set out in the "Animal Acquisition/Disposition" policy; 	<ul style="list-style-type: none"> Chair; Vice Chair; 3 additional members. 	<ul style="list-style-type: none"> Meeting frequency: tbc; Preparation and distribution of minutes: tbc. 	

Committee	Role	Responsibilities	Composition	Operations	Comments
		<ul style="list-style-type: none"> Review periodically the Zoo's animal acquisition/disposition policies and procedures in relation to industry standards and, in particular, the guidelines of the Association of Zoos and Aquariums and the Canadian Association of Zoos and Aquariums. 			
Conservation & Education	<ul style="list-style-type: none"> To ensure that the goals and objectives of the Zoo's mission to promote education, conservation and preservation are fulfilled. 	<ul style="list-style-type: none"> Develop and implement outreach efforts focused on education; Oversee on-site and local environmental action such as recycling and reducing energy use and other such initiatives; Review and promote potential partnerships with other organizations; Promote the sustainable use of resources including the development of an Environmental Policy and conducting an environmental audit. 	<ul style="list-style-type: none"> Chair Vice Chair 3 additional members 	<ul style="list-style-type: none"> Meeting frequency: tbc; Preparation and distribution of minutes: tbc. 	Members of this committee could include TDSB, Colleges and Universities along with other experienced community notables in this field of expertise.
Development & Sponsorship	<ul style="list-style-type: none"> To develop, implement and manage a successful fundraising strategy. 	<ul style="list-style-type: none"> Review and approve the preparation of a multi-year fundraising strategic plan with annual goals and targets; Approve the associated business development policies and procedures; Monitor the activities undertaken and the progress made, toward the goals set out in the Plan; Provide regular reports to the Board on the progress of the fundraising strategy; To engage in fund-raising activities on behalf of the Zoo; Provide guidance and input on the vision and future direction of the Zoo for fundraising purposes 	<ul style="list-style-type: none"> Chair; Vice Chair; Up to 15 additional members depending on suitability and prospects for supporting fundraising efforts. 	<ul style="list-style-type: none"> Meeting frequency: tbc; Preparation and distribution of minutes: tbc. 	<ul style="list-style-type: none"> Funds may include: <ul style="list-style-type: none"> Corporate Sponsorship Individual Donations Bequest Donations In Kind Donations Capital Structure Educational Sponsors Membership Donations
Transition Task Force	<ul style="list-style-type: none"> To oversee the transition of the organization to the new corporate structure. 	<ul style="list-style-type: none"> To work with staff and the Board to develop a transition plan; Monitor the transition and provide regular reports to the Board; To address issues as they develop during the course of the transition. 	<ul style="list-style-type: none"> Chair; Vice Chair; 3-5 members of the Board. 	<ul style="list-style-type: none"> Meeting frequency: tbc; Preparation and distribution of minutes: tbc. 	The current Governance Task force could be transitioned to this role.

APPENDIX C: INTEGRATED TRANSITION PROJECT WORK PLAN (DRAFT)

Project Work Stream & Tasks	Week																							
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24
Establish New Corporate Entity																								
Create New Legal Structure																								
Define Legal and Business Requirements																								
Frame Key Issues and Timing																								
Identify/ Confirm Organizational Structure of Board																								
Crate TZ Bylaws																								
Create TZ Policies and Procedures																								
Create Legal Entity																								
Identify "Founding" Board Members																								
Develop "Case of Support" for Major Donors																								
Identify Small Group of "Founding Members"																								
Create "Founding" Friends/ Partners for \$\$\$																								
Identify "Target" list of Potential Donors (15-30 Individuals)																								
Engage "Sponsors" for Pandas as Part of TZS																								
Populate NewCo Board Members																								
Make Appointments																								
City Representatives on TZ Board																								
Inaugural Board Meeting																								
Dissolve Current Board																								
Prepare TZ Business Plan																								
2013 Strategy and Priorities																								
Update Pro Forma Financial Projections																								
Update Panda Plan and Financial Impacts																								
Prepare 10 Year Cash Flow Projections																								

Project Work Stream & Tasks	Week																							
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24
Prepare TZ Business Plan Cont.																								
Transition Strategy/ Action Plan																								
Marketing and Fundraising																								
Create Capacity to Secure Private Sector Support/ \$\$																								
Prepare Management Agreement																								
Provide examples of Management Agreements																								
Identify "City Services" to be Potentially Maintained																								
Identify key "Term Sheet Conditions"																								
Prepare Ground Leases																								
Clarify uses of Restricted and Unrestricted Resources																								
Prepare Facility Plan																								
Secure City Approvals																								
Present to Executive Committee																								
Present to Council																								
Progress Meetings with City Manager Office																								



***Toronto Zoo New Governance Plan
Strategic Business Plan Update
Final Consolidated Report***



Schultz & Williams
development, management, marketing

March 18, 2013

Introduction

Schultz & Williams has developed the Updated Strategic Business Plan report to provide additional background information on the ten-year financial projections identified in "The Future of the Toronto Zoo Governance Report" dated September 5, 2012. The Future of the Toronto Zoo Governance Report, co-authored by Mansfield Communications and Schultz & Williams, was developed to identify the implementation steps to create a new governance structure for the Toronto Zoo – a structure that insures the Zoo's long-term viability, sustainability and success.

Schultz & Williams has developed and implemented over 20 shifts in governance plans over the past 13 years and we continue to create long-term sustainable and viable financial models for many of the Association of Zoos and Aquariums (AZA) institutions in North America. We believe that it is important that IF the City of Toronto wants to achieve one of its primary objectives for the Toronto Zoo – elimination of its annual operating support to the Zoo - the City understands that, if achieved, the Toronto Zoo would be one of only seven AZA zoos (non-for-profit zoos) that does not receive public-sector support for their annual operating budget. Of additional note, the industry benchmark among the 221 AZA zoos is between 30% - 35% of one's total operating budget is provided by the respective zoos public-sector partner – in 2012, the City of Toronto's operating support to the Toronto Zoo is projected to be 25% of the Zoo's total operating budget.

As noted in our September 5th Governance Report, the transition of zoos from publicly owned and managed to publicly owned and privately managed has been the trend in cities throughout North America – both the Calgary Zoo and Vancouver Aquarium have made the shift in governance in recent years. In most cases, the shift was driven by the need to change or expand the base of financial support for the zoo, and/or to allow the zoos to make changes to adapt to the market more quickly than is typically possible in a public-decision making environment. Today, nearly 76% of the accredited zoos are privately managed – with ownership and a continued financial responsibility and support still required from the public sector. Every zoo that has had a shift in governance has reported positive impacts and growth from its transition, despite the fact that most cities were motivated by a financial crisis to expedite the transition.

Based on our experience, the successful, and sustainable, governance models with zoological institutions are built on a diversified financial model, including earned (visitor) revenues, contributed (donations and gifts from individuals and corporations) revenues and dedicated annual operating funding from the respective public-sector partner (City, regional or Federal). To achieve this diversified financial model in Toronto, the leaders of the "new" Zoo must be given the time to develop its Board with strong business, civic and corporate leaders as the Zoo's greatest opportunities is to significantly grow and increase its contributed revenues – increasing from its current 2% of total revenues to the potential 12% over the next six to ten years. The City's continued stable operating investment in the Zoo during the initial five years of the new shift in governance will allow the Board to build its "case for support" and demonstrate to individuals and business leaders that the City has positioned the new Toronto Zoo for success and growth, and not failure.

From a funding perspective, “people give to people” and therefore the Board must be stewards of the Toronto region with access to and/or influence of individual, community and corporate resources. The diversified financial model and the goal of eliminating City operating support will only be achieved if the “right” Board is in place to strategically guide the Toronto Zoo and the Board is given sufficient time to cultivate, communicate and solicit individuals and corporations from throughout the Toronto region to support the operating needs and growth of the Toronto Zoo. The Board must also have the time to further develop its partnerships to create the “living campus Zoo” – including the Rouge National Urban Park and its “living classroom” with local and regional universities.

Zoos are wonderful community and regional assets that serve to engage the audiences that they serve with fun, educational and recreational “experiences” while providing direct economic benefits to their respective public partner through jobs, taxes, overnight visits and community engagement. These engaging new “experiences” will serve to further increase visitor per capita spending (in-Zoo spending) over the next ten years to leverage and support the downward shift in City funding. **Note: Based on a November 2010 study completed by The Economic Planning Group of Canada, in 2009, the Toronto Zoo’s operations (excluding capital investment) had a \$39MM contribution to Toronto’s Gross Domestic Product (GDP) with a \$47MM contribution to Ontario’s GDP; provided over 600 jobs in Toronto and \$35MM in labour income; and generated over \$21.5MM in taxes to all three levels of government.**

This report provides additional background information to support the “revised” ten-year financial projections for the “new” Toronto Zoo – for the purposes of this report, we refer to the new Toronto Zoo under the shift in governance as “ZooCo.” The “revised 2013 baseline” and “projected 2012” financial projections were developed in cooperation with the Toronto Zoo accounting and financial staffs. Their input was invaluable and helped to re-structure the original (September 2012) ten-year projections.

Within this report, we created the baseline projections utilizing the Zoo’s actual financial performance commencing in 2010 as prior years’ financial data contained inter-fund transfers from the then existing Toronto Zoo Foundation that, according to Zoo staff, did not paint a clear picture of the Zoo’s operating expenses. Although the City requested a five-year historical review, we have utilized the Zoo’s prior three years financials and its 2013 approved operating budget in developing our projections.

Summary of Prior Year Financial Results

Table 1: Actual Results 2010 & 2011; Projected 2012, and Approved 2013

	Actual 2010	Actual 2011	Projected 2012	Approved 2013	Actual 2010	Actual 2011	Projected 2012	Approved 2013
Attendance	1,308,788	1,241,695	1,290,000	1,600,000	1,308,788	1,241,695	1,290,000	1,600,000
Operating Revenues								
City General Appropriation	11,388,300	11,577,500	11,110,700	11,110,700	8.70	9.32	8.61	6.94
Capital Works contributions	76,000	157,029	171,000	171,000	0.06	0.13	0.13	0.11
Admission	11,238,977	11,070,320	12,200,048	17,534,830	8.59	8.92	9.46	10.96
Food services	5,682,662	5,805,885	6,084,299	6,958,870	4.34	4.68	4.72	4.35
Membership	3,651,559	3,136,856	3,315,258	4,233,845	2.79	2.53	2.57	2.65
Gift shop operations	2,608,657	2,448,219	2,589,570	3,344,000	1.99	1.97	2.01	2.09
Parking	2,799,661	2,745,244	2,913,274	3,413,557	2.14	2.21	2.26	2.13
Other revenue and recoveries	2,216,931	2,391,223	2,005,579	1,166,162	1.69	1.93	1.55	0.73
Rides & rentals	769,549	779,713	1,211,386	1,243,000	0.59	0.63	0.94	0.78
Education programs	749,662	790,105	780,292	917,776	0.57	0.64	0.60	0.57
Development	648,933	516,381	512,822	1,300,000				
Funding from deferred revenue	468,091	895,860	758,220	1,011,500				
Total Operating Revenues	42,298,982	42,314,335	43,652,448	52,405,240	32.32	34.08	33.84	32.75
Operating Expenses								
Salaries/Wages & Benefits:								
General Management	1,091,833	1,245,365	1,480,098	5,898,132				
Operations & Administration	10,264,124	11,380,801	12,490,226	10,745,900				
Conservation Education & Wildlife	11,322,856	11,988,944	11,902,766	9,311,900				
Marketing & Communications	1,223,937	1,167,683	1,269,110	1,123,800				
Development	490,499	511,905	727,620	678,068				
Subtotal Salaries & Benefits	24,393,249	26,294,698	27,869,820	27,757,800				
Utilities	2,294,795	2,441,929	1,973,827	2,821,120				
Wildlife Food	879,341	875,307	914,179	1,470,979				
Materials & Supplies	2,340,922	1,933,978	2,069,086	2,338,651				
Equipment	601,355	511,798	510,056	972,500				
Contracted Services	609,994	743,469	815,923	1,787,758				
Advertising & Promotions	1,798,596	1,364,779	1,388,736	1,743,736				
Services & Rents	2,655,113	1,985,670	2,431,877	4,161,765				
Food Services	4,930,737	4,478,437	4,380,695	5,164,901				
Retail Cost of Sales	1,153,917	1,048,308	1,165,050	1,530,300				
Development	502,323	601,736	133,199	500,000				
Total Operating Expenses	42,160,342	42,280,109	43,652,448	50,249,510	13.2%	22.9%	28.0%	25.8%
Excess of Funds	138,640	34,226	-	2,155,730	55.8%	57.2%	55.0%	54.2%

See Table 1 Notes on following page.

The 2013 budget was approved by the City and includes the new opening of the new panda exhibit in the spring of 2013.

Key Summary Notes from Table 1: Four-Year History of Toronto Zoo's Financial Performance

1. Consolidated financials developed in cooperation with Toronto Zoo accounting and financial staffs.
2. Projected 2012 reflect preliminary projections as of January 3, 2013.
3. Approved 2013 projections per City approval and includes panda expenses and anticipated operating revenues resulting from pandas on exhibit in May 2013.
4. The Zoo has operated on a *positive cash basis or breakeven* for the past three years with anticipated net exceed of funds in 2013.
5. Per capita spending is based on total Zoo attendance.
6. Salaries/Wages & Benefits allocations were modified (compared to the 2010 – 2012 actuals) within the approved 2013 operating budget to account for panda labour expenses and restructuring of departments/staff
7. Food Service percentages reflect net operating margins – after salaries and cost of goods.
8. Retail percentages reflect net operating margins after cost of goods only – salaries related to retail are included in the Operations & Administration salaries and benefits.

Table 1A: Allocation of Employees by Salary Function (see Salary/Wages & Benefits line items above)

Salaries and Wages have been allocated to Zoo cost centers covering the following Zoo functions and services:

General Management	Operations & Administration	Conservation, Education & Wildlife	Marketing & Communications	Development
General Management Human Resources	Finance Computer Services Safety & Security Facilities & Services	Curatorial Wildlife Health Wildlife Nutrition Wildlife Care Education Volunteers	Marketing Community Relations & Special Events Graphics Business Development	Annual Giving Capital Campaign

Attendance Overview & 2013 Operating Budget

The Toronto Zoo's 2013 operating budget reflects a "baseline" attendance level of 1.3MM visitors based on the Zoo's actual five year attendance trend (Note: for the three years 2007 – 2009, the Zoo's average annual attendance was 1.402MM visitors). The Penguin and White Lion Exhibits that opened in 2011 and 2012 respectively continued to attract almost 1.3MM visitors in 2012. The new five-year loan and exhibition of pandas, opening to visitors in May 2013, will provide opportunities for the Zoo to increase its attendance baseline by 300k in 2013; 200k in 2014; 100k in 2015 & 2016; and 200k in 2017. The panda attendance projections and its related five-year operating budget were reviewed and evaluated by Deloitte & Touche LLP in May 2011 as part of its Giant Panda financial analysis. The City of Toronto's Corporate Finance department reviewed and developed a project benefit and sensitivity analysis of the net five-year financial impact that the new panda exhibit would have on the Toronto Zoo.

Of the Zoo's 1.3MM baseline visitors, approximately 60% of this total (780,000 visitors) are "paid" visitors with the remaining visitors comprised of member visits, children under 4 and free visits. Membership, with its over 32,000 household members, represents slightly less than 25% of the total baseline visits. Members on average visit the Zoo 2.5 times a year.

With the arrival of the pandas in May 2013, admission fees for general and school group admissions will increase to support the new visitor experiences and to reflect market-based pricing and demands. Membership fees will also increase to keep its value in line with general admission prices. The "peak", "non-peak" pricing methodology implemented in 2012 for General, Senior and Child fees as a means of encouraging increasing visitation in the shoulder seasons will remain in place.

Over the next five years, in addition to the exhibiting pandas and completing the facility improvements currently under construction at the Zoo, the Zoo will develop and implement a number of compelling new visitor experiences; expand its visitor amenities; and offer new animal exhibits that will serve to further increase the Zoo's baseline attendance of 1.3MM visitors. Although the Zoo has a current facility master plan, we anticipate that the Zoo will "update" its current facility master plan within one year of the transition date of the shift in governance (by 2015) and seek the approval of the City of Toronto for the facility plan as to allow ZooCo and its Board to gain the funding support of the private sector in fulfilling the facility goals of the master plan. ZooCo will provide any financial reporting requirements to the City of Toronto on an annually basis to maintain its current "State of Good Repair" funding for facility improvements.

In addition, the new exhibits and experiences will further build and promote the Zoo's brand and awareness within the Toronto region and extend the Zoo's role as "the" family destination within the Toronto region. Among the new exhibits and experiences to be implemented over the next five years that are currently programmed within the Zoo's facility master plans are:

- A new Panda Exhibit, the first year of a five-year commitment, with the Chinese Government to provide two Giant Panda's to the Toronto Zoo for exhibition and research study.
- Renovation and expansion of the "orangutan" outdoor exhibit
- Opening of the "Canadian Wilderness" with moose, beaver and otter exhibits and a drive-through bison and elk exhibit
- A new "education learning center" that supports the Zoo's award recognized conservation and education programs and initiatives
- A new "Tropical Americas" visitor and animal hub, if funding is available
- Promote short-term attendance/experience exhibits
 - ✓ Highly interactive/experiential short-term exhibits such as the Chinese Lantern Festival
 - ✓ Comprehensive special events plans;
 - ✓ Addition of new winter based activities to stimulate attendance in the non-peak season such as ice skating and behind the scene winter tours;
 - ✓ Continued utilization of social media / database development in the efforts to strategically build awareness, attendance and customer loyalty
 - ✓ Customer service excellence, way finding, maintenance and state of good repair of the grounds and facilities; and
 - ✓ Growth of membership base, donor base and school visits to build affinity and enhance community support.

To fund the Zoo's future growth and development, the Board and staff will continue with its major fundraising campaign to raise funds for capital projects and exhibit improvements as outlined in the Zoo's facility master plan. Integrated within the Zoo's new fundraising plan will be the development of public/private sector partnerships and strategic alliances with universities and peer cultural institutions. The "new" fundraising plan will be developed once the new Board has been identified, ZooCo has been established and the Board's Development Committee has been organized. We have assumed that Board members as well as non-Board members who have the "passion" for the Toronto Zoo will be included as part of the Development Committee. We have also assumed that Toronto Zoo "development staff" or a third-party fund-raising consultant will support the CEO and the Development Committee in achieving its goals and objectives.

We have anticipated the Board, via its relationships with individuals, corporations, partners and the Provincial governments, will secure at least \$30MM for capital investments at the Zoo over the next ten years – not including funds generated from the Zoo's contributed operating programs/activities; sponsorships from the panda exhibit; and/or funding from the City of Toronto's State of Good Repair funds to support the Zoo's deferred maintenance needs – projected at \$6MM annually.

Pricing Strategies for 2013 (incorporated into the Operating Revenue Assumptions found on page 16)

- The Toronto Zoo will implement an admission increase of \$3 per general admission and a \$1 for school groups. The visitor will pay one price which includes access to all areas of the Zoo. A 5% increase to all membership categories is also programmed to balance the increased admission fees with membership "value." All changes will be effective May 2013 with the opening of the new panda exhibit.
- Parking fees will remain at \$10 per car.
- The pricing methodology outlined considers the benefit of the exhibit to all visitors to the Toronto Zoo and mitigates risk over the five (5) year duration of the exhibit.
- The "peak" / "non-peak" pricing methodology implementation will continue in 2013 for General, Senior and Child fees as a means of encouraging increased visitation during the shoulder season.

Table 2 below summarizes the admission and membership fee adjustments for 2013:

Toronto Zoo Admission Fees - TABLE 2	Fee Unit/Basis	2012 Fee	Other Adjustments	2013 Fee
Adult Admission (Peak Time)	Daily	25	3	28
Senior (65-Over) Admission (Peak Time)	Daily	20	3	23
Children (4 - 12) Admission (Peak Time)	Daily	15	3	18
Adult Admission Non-Peak Time	Daily	20	3	23
Seniors (65-Over) Admission Non-Peak Time	Daily	15	3	18
Children (Ages 4-12) Admission Non-Peak Time	Daily	10	3	13
Admission - Post Secondary Student	Daily	9	1	10
Admission - Students- Grades 9-12 (Secondary)	Daily	8	1	9
Admission - Students K-8 Elementary	Daily	7	1	8
Membership Fees				
Family Membership	Annual	170	15	185
Dual Membership	Annual	148	12	160
Single Family Membership	Annual	126	12	138
Individual Membership	Annual	82	8	90
Senior Membership	Annual	50	5	55
Senior Couple Membership	Annual	88	8	96
Student Membership	Annual	45	5	50
Education Programs - Zoo School	Per Program	1,150	100	1,250

All fee adjustments approved by the City within the 2013 operating budget.

Planning Assumptions: 2013 Operating Budget

- Attendance:** Zoo attendance is projected to increase by 300,000 visitors in 2013 as a result of the Panda Exhibit. Drawing from the experience of previous Panda visits and other North America Zoos with Pandas, the increased attendance due to the Pandas will conservatively peak in year 1 at 1.6MM and decline in year 2 to 1.5MM, year 3 to 1.4MM and year 4 to 1.4MM. Attendance in the final year increases again to 1.5MM as visitors will celebrate the departure of the pandas in April 2018.

	2010 Actual	2011 Actual	2012 Projected	Actual 2013 Target	2014 Target	2015 Target
Attendance	1,308,788	1,241,695	1,300,000	1,600,000	1,500,000	1,400,000

Reviewed by the City Finance Department in 2012

- With the pandas on exhibit for five years, operating revenues and expenses directly associated from the pandas that will be generated from visitors including admissions, memberships, retail, food services and parking are projected to fluctuate directly with the attendance over the five years. As noted in the Table 3 below, operating revenues will peak in year 1 at \$7.826MM and decline in year 2 to \$5.53MM, year 3 to \$3.23MM and year 4 to \$3.23MM. Operating revenues in the final year are anticipated to increase to \$5.53MM.

Table 3: Attendance, Revenues and Expenses due to Panda exhibit

Category	2013	2014	2015	2016	2017	Total 5-Year Plan
Attendance without Pandas	1,300,000	1,300,000	1,300,000	1,300,000	1,300,000	6,500,000
Attendance with Pandas	1,600,000	1,500,000	1,400,000	1,400,000	1,500,000	7,400,000
Attendance Increase for Pandas	300,000	200,000	100,000	100,000	200,000	900,000
Revenue						
Admission	5,124,828	3,816,418	2,505,001	2,505,001	3,816,418	17,767,675
Parking	500,000	333,333	166,667	167	333,333	1,500,007
Membership	772,913	515,275	257,638	257,638	515,275	2,318,739
Retail and Rides	400,000	266,667	133,333	133,333	266,667	1,200,005
Food Services	1,029,142	598,344	167,546	167,546	598,344	2,560,932
Total Revenue	7,826,883	5,530,037	3,230,185	3,230,185	5,530,037	25,347,358
Expenditures						
Salaries and Wages	1,092,526	773,392	464,258	464,258	773,392	3,567,843
Materials and Supplies	1,014,600	834,937	760,143	760,143	834,937	4,204,783
Equipment	354,700	30,000				
Service and Rents	3,111,326	2,353,875	1,814,373	1,814,373	2,273,668	11,267,073
Total Expenditures	5,573,152	3,992,207	3,038,774	3,038,774	3,882,997	19,140,299
Contribution to Reserve	2,253,731	1,537,833	191,411	24,911	1,648,040	6,207,059
Net Revenue	0	0	0	0	0	0

Does not include sponsorships

Consistent with FY 2013 projections

The panda impact per capita visitor spend rate of \$28.16 is consistent with the Zoo's overall per capita spend rate of \$33.84 prior to pandas in 2012. The operating expenses are higher in year 1 due to the initial transition costs associated with the pandas. Operating expenses reflect the full anticipated costs of the pandas (ie., cost of shipping the food for the pandas). **Note:** The pandas will be on exhibit for a total of 60 months (5 years) but it will impact the Zoo's attendance and financial performance for six years as the first and last years will be "half-years" with pandas. Our attendance projections and related revenues are allocated over the six years to match the anticipated spikes in visitation, while the five-year expenses are expensed over the five years (2013 – 2017). Although the first year panda increase reflects a 23% increase over the 1.3MM baseline, with over 32,500 household members, representing over 130,000 individual family members, over one-third of the anticipated increase will be generated from member visits.

- **Membership Fees:** Membership in 2012 recovered from its 2011 level impacted by the economic climate. In 2013, the Zoo anticipates that membership households will increase by approximately 10% due to the new panda exhibit. The number of membership households will gradually decline in 2014 and 2015 constant with the Zoo's overall attendance trend. As noted earlier, membership fees will increase in 2013 by approximately \$15 per membership category to balance the membership value with the adjusted admission fees.

	2010 Actual	2011 Actual	2012 Projected	Actual	2013 Target	2014 Target	2015 Target
Membership	31,537	29,369	32,100	34,000	33,000	33,000	32,000

The Table 4 below reflects an allocation of the Zoo's 2012 membership by household category with the current (2012) membership fees as well as the anticipated 2013 membership fee adjustments.

Table 4: Household Membership Analysis

	# of H/Holds		Pricing		Pricing	
	2011	2012	2012	2012	2013	2013
Individual	2,322	2,741	\$38	\$104,158	\$90	\$246,690
Student	1,551	1,500	\$45	\$67,500	\$50	\$75,000
Senior	1,467	1,676	\$50	\$83,800	\$55	\$92,180
Dual	7,836	8,100	\$142	\$1,150,200	\$160	\$1,296,000
Family	14,027	16,000	\$160	\$2,560,000	\$185	\$2,960,000
Single Family	1,377	1,500	\$126	\$189,000	\$138	\$207,000
Grandparents	464	475	\$160	\$76,000	\$185	\$87,875
Keeper/Chair	55	45	\$500	\$22,500	\$500	\$22,500
Life Member	270	269	\$1,000	\$269,000	\$1,000	\$269,000
	29,369	32,306		\$4,522,158	\$139.98	\$5,258,258
Net of 13%				\$4,001,910		\$4,653,326
Budget 2012				\$3,445,933	\$106.67	
Parking Pass		20,406	45	\$918,270		

- **Retail/Gift Sales:** Although panda retail merchandise should be a marketable with high-quality products, staff is concerned that the increased attendance (+300,000 visitors) will limit the growth of the Zoo's per capita spending. Over the prior three years, retail per capita spending has averaged \$2 per visitor. In 2013 through 2015, retail per capita is projected to increase to \$2.09 in 2013; \$2.12 in 2014 and \$2.15 in 2015 – on attendance of 1.4MM visitors. Opportunities to further increase retail per capita, even with the higher visitation, exist with creative and engaging sales strategies.

- **Food Service:** Over the past three years, food service per capita spending has steadily increased – from \$4.34 in 2010 to \$4.72 in 2012. Due to the increased visitation and limited increase in food capacity, staff has been conservative in projecting a food per cap of \$4.35 in 2013; \$4.44 in 2014 and \$4.53 in 2015. Opportunities to further increase food per capita exist through creative sales strategies and efficient time and line management of the increased visitation.

Planning Projections for Years 2013 – 2022

Visitor Experiences and New Animal Exhibits

As noted within this report, in addition to the exhibiting pandas and completing the facility improvements currently under construction at the Zoo, the Zoo will develop and implement a number of compelling new visitor experiences; expand its visitor amenities; and offer new animal exhibits that will serve to further increase the Zoo’s baseline attendance of 1.3MM visitors. Although the Zoo has a current facility master plan, we anticipate that the Zoo will “update” its current facility master plan within one year of the transition date of the shift in governance (by 2015) and seek the approval of the City of Toronto for the facility plan as to allow ZooCo and its Board to gain the funding support of the private sector in fulfilling the facility goals of the master plan.

In addition to exhibiting pandas from May 2013 through April 2018, the Zoo anticipates that a number of new visitor experiences and animal exhibits will be completed and open to visitors during the next ten years to create that “compelling reason to visit” the Toronto Zoo. The pandas will continue to be the primary focus and special events celebrating their activities and growth will be planned throughout their five-year visit. The current implementation strategies to support the Zoo’s projected attendance are outlined below:

2013	1,600,000	Panda Opening
2015	1,400,000	Pandas & Adventure Play
2017	1,500,000	Pandas Final Year
2019	1,400,000	Orangutan
2021	1,500,000	Canadian Wilderness

New visitor experiences and animal exhibits will be funded through the Zoo’s new fundraising plan for capital investment – supported through contributions from individuals, corporations and partners. The visitor/animal experiences are in addition to the projects supported through the City’s State of Good Repair fund which could involve improvements to the existing visitor experiences.

Seasonal attractions would operate during the Zoo’s peak operating season (April – September, maybe less) and would include attractions that create a “must see” visitor for residents, tourist and members. Seasonal attractions could include the new robotic Giant Bugs exhibit; Insects of the World or an Insectarium; the next evolution of water or adventure play experiences for children of all ages; 4D Light or Animal experiences;

special exhibits/events or conservation parades with local theater or universities; Lego animals, among others to be created over the next ten years for zoos and other cultural attractions. Visitors respond to limited-run engagements/experiences with a compelling "must see now" marketing tag-line.

Since the City of Toronto will continue to own all of the facility assets, and any future improvements funded in whole or part by ZooCo, the City as part of its management agreement with ZooCo must annually provide \$6MM (net, adjusted annually by rates of inflation) via its Capital Works Program under the current State of Good Repair initiatives. ZooCo will focus on engaging private donors to invest in "new" initiatives (new animal exhibits, educational programs and mission-driven conservative initiatives) with the City as an equal partner in funding its "deferred maintenance" projects and improvements. ZooCo and its Board will fail to convince new donors to invest in "infrastructure improvements." However, with a compelling "updated" facility master plan, ZooCo and the City could leverage one another to engage donors while maintaining its deferred maintenance needs. The City ongoing funding of the State of Good Repair is critical in leveraging the new partnership with corporate and individual donors.

ZooCo will provide any financial reporting requirements to the City of Toronto on an annually basis to maintain its current "State of Good Repair" funding for facility improvements.

Financial Data & Projections

On the following three pages, we have "updated" the ten-year operating projections for the new Toronto Zoo with call-out notes identifying key financial impacts. The underlying planning assumptions, including the background information on the "Revenue Opportunities", for the ten-year financial projections can be found following the projections and per capita spending tables below.

Table 5: Financial Projections 2013 - 2017

Accounting Period / Working Focus #2	30% Panda	Panda	Refrained P	Panda	Attendance #1	Panda
Revised 2013	2014	2015	2016	2017	2016	2017
Attendance	1,600,000	1,500,000	1,400,000	1,400,000	1,400,000	1,500,000
OPERATING REVENUE:						
City of Toronto Appropriations	11,120,700	10,120,700	11,120,700	11,120,700	11,120,700	11,120,700
Capital works contributions	171,000	171,000	171,000	171,000	171,000	171,000
Admission	17,534,180	16,440,000	16,111,200	16,111,200	16,111,200	17,262,000
Food services	6,960,000	6,635,500	6,336,036	6,462,737	6,462,737	7,062,870
Membership	4,341,948	4,035,000	4,060,000	4,060,000	4,060,000	4,330,000
Gift shop operations	3,344,000	3,182,025	3,014,438	3,059,655	3,059,655	3,327,375
Parking	3,613,363	3,390,000	3,164,000	3,164,000	3,164,000	3,390,000
Other revenue and recoveries	1,200,000	1,125,000	1,050,000	1,050,000	1,050,000	1,125,000
Rides & rentals	1,280,000	1,218,000	1,153,852	1,171,160	1,171,160	1,273,636
Education programs	967,804	967,804	982,321	982,321	982,321	1,032,487
Development/Sponsorships/Annual Fund	1,300,000	1,365,000	1,433,250	1,504,913	1,504,913	1,580,158
Funding from deferred revenue	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
TOTAL OPERATING REVENUE	52,822,993	49,660,029	47,586,797	46,847,705	46,847,705	48,705,226
OPERATING EXPENSES						
Salary and Benefits	27,757,800	27,854,167	27,961,980	28,381,409	29,117,130	29,117,130
Utilities	2,821,120	2,877,542	2,935,093	2,993,795	3,053,671	3,053,671
Wildlife Food	1,470,979	1,500,399	1,530,407	1,561,015	1,592,235	1,592,235
Materials and Supplies	2,338,651	2,315,424	2,321,733	2,368,167	2,455,530	2,455,530
Equipment	972,500	886,950	874,689	892,183	910,026	910,026
Contracted Services	1,787,758	1,805,636	1,823,692	1,841,929	1,860,348	1,860,348
Advertising and Promotions	1,743,736	1,761,173	1,778,785	1,796,573	1,814,539	1,814,539
Services and Rents	4,161,765	3,722,395	3,635,840	3,675,224	3,733,729	3,733,729
Development	500,000	515,000	530,450	546,364	562,754	562,754
Food Services	5,011,200	4,791,960	4,561,946	4,653,185	5,085,266	5,085,266
Retail Cost of Sales	1,504,800	1,431,911	1,356,497	1,376,845	1,497,319	1,497,319
Contingency	1,150,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
TOTAL OPERATING EXPENSE	51,220,309	49,462,557	50,311,111	51,086,688	52,302,549	52,302,549
Excess (deficiency) of Revenue/Expenses	1,602,686	(2,802,528)	(2,724,314)	(4,238,983)	(3,597,323)	(3,597,323)
Revenue Opportunities:						
Sponsorship of Panda Food: Fedex	500,000	550,000	550,000	550,000	550,000	550,000
Sponsorships of Panda	600,000	600,000	1,000,000	1,400,000	1,400,000	1,400,000
Non-recurring panda expenses	0	100,000	100,000	100,000	100,000	100,000
Operating Projects	0	300,000	200,000	200,000	200,000	200,000
Regional Partnership Support	0	0	500,000	1,000,000	1,000,000	1,000,000
Leveraged Assets	615,000	975,000	960,000	1,210,000	1,210,000	1,225,000
Subtotal	\$1,715,000	\$2,525,000	\$3,310,000	\$4,460,000	\$4,460,000	\$4,475,000
Net Impact with Opportunity Revenues	3,317,686	1,722,472	\$85,686	221,017	877,677	877,677
Incremental Development: Operating	0	500,000	1,000,000	1,000,000	1,000,000	1,300,000
Potential Total Financial Impact	\$3,317,686	\$2,222,472	\$1,585,686	\$1,221,017	\$2,177,677	\$2,177,677
Total Cumulative \$\$ Impact	\$3,317,686	\$5,340,158	\$7,125,844	\$8,346,861	\$10,524,538	\$10,524,538
Development Capital Projects: Restricted	0	\$2,000,000	\$3,000,000	\$5,000,000	\$5,000,000	\$5,000,000

Attendance driven by pandas
 City supports declines, not eliminated
 Admission fee increases in 2015
 Food, gift & rides show inflationary growth
 New Education Center opens late 2016
 Development grows by 5% annually
 Salaries/Benefits reflect annual growth
 after panda salary adjustments in 2014 & 2015
 Utilities assume no energy savings/reductions
 Service & Rents adjusted for high panda transition expenses incurred in 2013; lower in subsequent four years
 Contingency is un-allocated

New \$\$\$ raised from corporate, Board & individuals under ZooCo: Development Committee of the Board will grow \$\$\$
 Fund Balance/Operating Reserve/Re-Investment

Table 6: Financial Projection 2018 - 2022

Operating Focus/Marking Focus #2	2018	2019	2020	2021	2022
Attendance	1,500,000	1,400,000	1,450,000	1,500,000	1,525,000
OPERATING REVENUE:					
City of Toronto Appropriations	1,116,700	1,167,000	1,116,700	1,116,700	1,116,700
Capital works contributions	171,000	171,000	171,000	171,000	171,000
Admission	17,262,000	16,594,336	17,182,500	18,308,250	19,171,789
Food services	7,200,000	6,820,800	7,170,366	7,528,884	7,769,181
Membership	4,350,000	4,181,800	4,331,150	4,480,500	4,691,830
Gift shop operations	3,377,285	3,199,415	3,363,385	3,531,554	3,644,270
Parking	3,390,000	3,472,000	3,596,000	3,720,000	3,782,000
Other revenue and recoveries	1,125,000	1,050,000	1,050,000	1,086,207	1,123,662
Rides & rentals	1,292,741	1,224,656	1,287,420	1,351,791	1,394,936
Education programs	1,050,000	1,050,000	1,087,500	1,125,000	1,143,750
Development/Sponsorships/Annual Fund	1,659,166	1,742,124	1,829,231	1,970,692	2,016,727
Funding from deferred revenue	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
TOTAL OPERATING REVENUE	48,987,892	47,617,032	47,179,252	46,834,579	45,909,145
OPERATING EXPENSES					
Salary and Benefits	28,778,887	29,210,571	29,648,729	30,093,460	30,544,862
Utilities	2,814,744	2,871,039	2,928,460	2,987,029	3,046,770
Wildlife Food	1,068,080	1,089,441	1,111,230	1,133,155	1,156,124
Materials and Supplies	2,284,641	2,330,334	2,376,941	2,424,479	2,472,969
Equipment	928,227	946,792	965,727	985,042	1,004,743
Contracted Services	930,000	939,300	948,693	958,180	967,782
Advertising and Promotions	1,375,000	1,590,750	1,606,658	1,622,724	1,638,951
Services and Rents	2,895,805	2,953,721	3,012,796	3,073,052	3,134,513
Development	579,637	597,026	614,937	633,385	652,387
Food Services	5,040,000	4,774,560	5,019,256	5,270,219	5,498,427
Retail Cost of Sales	1,486,006	1,407,743	1,479,889	1,553,884	1,603,479
Contingency	400,000	400,000	400,000	400,000	400,000
TOTAL OPERATING EXPENSE	48,781,027	49,111,277	50,113,316	51,134,909	52,060,985
Excess (deficiency) of Revenue/Expenses	206,865	(1,494,245)	(2,934,064)	(4,300,330)	(6,151,840)
Revenue Opportunities:					
Sponsorship of Panda Food: FedEx	0	0	0	0	0
Sponsorships of Panda	0	0	0	0	0
Non-recurring panda expenses	0	0	0	0	0
Operating Projects	0	0	0	0	0
Regional Partnership Support	1,250,000	1,250,000	1,250,000	1,500,000	2,500,000
Leveraged Assets	1,225,000	1,210,000	1,217,500	1,225,000	1,228,750
Subtotal	\$2,475,000	\$2,460,000	\$2,467,500	\$2,725,000	\$3,728,750
Net Impact with Opportunity Revenues	2,681,865	965,755	(466,564)	(1,575,330)	(2,423,090)
Incremental Development: Operating	1,500,000	1,800,000	1,800,000	1,800,000	1,800,000
Potential Total Financial Impact	\$4,181,865	\$2,765,755	\$1,333,436	\$224,670	\$(623,090)
Total Cumulative \$\$ Impact	\$14,706,403	\$17,472,158	\$18,805,594	\$19,030,264	\$18,407,174
Development Capital Projects: Restricted	\$5,000,000	\$2,500,000	\$2,500,000	\$2,500,000	\$2,500,000

- Attendance driven by new visitor/animal experiences
- City supports declines over eight years allowing new Board to build new sources of revenues
- Admission fee increases in 2019 & 2022
- Membership increases in 2019 and 2022
- Development grows by 5% annually
- Salaries/Benefits reflect 1.5% annual growth
- Panda related expenses reduced in 2018 for utilities, services & rents; salaries
- Net operating margins for food and retail improves annually -- 30% by 2022 for food and 56% by 2022 for retail
- Contingency is un-allocated

Regional Partnership support from regional governments and educational partners
Leveraged assets reflect "best practices" implemented (2-5% savings) and increases or leveraging in visitor spending

Fund Balance/Operating Reserve/Re-Investment

Table 7: Visitor Per Capita Spending Projections

OPERATING REVENUE:	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Per Capita Spending Projections	10.96	10.96	11.51	11.51	11.51	11.51	11.85	11.85	12.21	12.57
Admission	4.35	4.44	4.53	4.62	4.71	4.80	4.87	4.95	5.02	5.09
Food services	2.69	2.69	2.90	2.90	2.90	2.90	2.99	2.99	2.99	3.08
Membership	2.09	2.12	2.15	2.19	2.22	2.25	2.29	2.32	2.35	2.39
Gift shop operations	2.26	2.26	2.26	2.26	2.26	2.26	2.48	2.48	2.48	2.48
Parking	0.80	0.81	0.82	0.84	0.85	0.86	0.87	0.89	0.90	0.91
Other revenue and recoveries	0.80	0.81	0.82	0.84	0.85	0.86	0.87	0.89	0.90	0.91
Rides & rentals	0.80	0.81	0.82	0.84	0.85	0.86	0.87	0.89	0.90	0.91
Education programs	0.60	0.65	0.65	0.65	0.65	0.70	0.65	0.68	0.68	0.68

The per capita spending rates are conservative based on the visitor/animal experiences and rate increases noted above.

Operating Revenues: Planning Assumptions

Admission Fees: The 2013 admission fees (see Table 8 below) will be adjusted in 2015 by \$2 per category to reflect new visitor experiences and animal exhibits implemented over the prior two years and to adjust for the new programming experiences offered from a “refreshed” panda exhibit. Continuing to invest in “advertising and branding of the new Toronto Zoo” is critical as visitors must have a “call-to-action” to visit the Zoo. Based on our broad expertise in working with zoos and cultural attractions through North America, higher admission fees is not a negative factor in determining a zoo visit..... weather and the availability of time are the true deciding factors.

As noted in the ten-year projections, admission per capita spending increases to \$11.51 in 2015 (from \$10.96) and assumes that the Zoo will continue its current “peak/non-peak” pricing structure. The Toronto Zoo’s general admission pricing structure will remain competitively priced (market-driven) as its fees will be less than African Lion Safari (Ontario) but very comparable with the Calgary Zoo, Vancouver Aquarium and Zoo de Granby – the respective zoos adult general admission pricing as of 2012 are: \$21; \$24 and \$23.95 – GST taxes are not included and none of the zoos noted above exhibit pandas.

Table 8: 2013 Admission Fees

Category	2013 Rate
Adult 13-64 yrs peak	28
Adult 13-64 yrs non peak	23
Child 4-12 yrs peak	18
Child 4-12 yrs non peak	13
Senior Over-65 peak	23
Senior Over-65 non peak	18
Student Post Secondary	10
Student Gr. 9-12	9
Student Gr. K-8	8
Parking	10

Future general admission fee increases are programmed for 2019 (per capita increasing to \$11.85) and 2022 (per capita increasing to \$12.57) – all fee adjustments are conservative per capita projections as memberships will also be adjusted and all of the increases will be integrated with the anticipated new visitor, animal and facility improvements programmed. It is further anticipated that general admission fees will not be adjusted down after the pandas leave in the spring of 2018 as the Zoo will have increased the value of the zoo visit through new compelling and engaging animal exhibits, attractions and programming that will be implemented annually over the next eight years.

Note: the Zoo’s 2012 On-site Visitor Satisfaction survey supports the Zoo’s future pricing strategies and projected increases based on the following 2012 findings – from the 849 questionnaire surveys completed during a nine-week period in the summer of 2012:

- 98.7% of the respondents rated the Zoo as “good to excellent” value for their money;
- 96.6% of respondents indicated that they would “likely/strongly” recommend the Zoo to a friend;
- Over 67.1% indicated that a “family outing” was the primary reason for their visit with 88.3% of those respondents indicated that a “special exhibit/event” was the primary reason for their visit to the Toronto Zoo.

Food Service: Management will continue to assess options to grow per capita spending and improve the net operating margin from food service and catering operations. Over the ten years, per capita spending grows by 17% which is very conservative. However, with additional investments in food service operations and facilities to improve customer through-put and output, per capita spending could increase by additional 10% - 15% if the investments are implemented within the next two – three years.

Per capita spending is \$4.35 in 2013 increasing to \$5.09 in 2022. The net operating margin from food service operations increases from 28% in 2013 to 30% in 2022. We would anticipate that the net operating margin would continue to grow as facility and operational

improvements are implemented. The existing food service contract format will need to be assessed by the Board to determine if additional options or opportunities to improve the contractual terms exist under the governance structure.

Membership: Fees will be adjusted in the year that admission fees are increased to maintain the “value” balance between member visits and paid visits. Currently, members visit, on average 2.5 times a year – will increase during the five years with pandas – and stabilize after 2018. Membership fees will be adjusted in 2015, 2019 and 2022. Primarily, members join the Toronto Zoo for the as “value” offered.

Gift Shop: Management will continue to assess options to grow per capita spending and improve the net operating margin of retail, including opportunities to outsource to a third-party concessionaire with zoo, museum and/or cultural attractions experience. Over the ten years, retail per capita increases by 14.4% which is very conservative, especially with pandas and new animal/visitor experiences. Much like food service, additional investments will be required to leverage the per capita growth and further increase the net operating margin.

Parking Fees: The parking fee is currently \$10 per car and we have assumed, to be conservative, that the fee will not increase until after the pandas leave – increase in 2019 by \$1 per car. We have assumed that the Zoo will not acquire or increase its current base of parking spaces but will assess options and opportunities to increase utilization and turnover to further increase per capita spending. Members’ parking fees will not be increased until the membership fee increase in 2019.

Education Programs: Fees and program utilization remain stable until the new Education and Conservation Center are completed in 2017 (could be completed in late 2016, if funding is available). The new Center will increase the Zoo’s mission-driven education and interpretive brand and create opportunities to increase programmatic initiatives and activities. After 2017, education fees increase annually by inflation.

Development/Sponsorship/Annual Fund: Currently the Zoo’s development (unrestricted) activities & programs generate approximately \$1.3MM (gross), while the Zoo incurs approximately \$680,000 in salaries and \$500,000 in operating costs to support these unrestricted operating revenues. The operating expenses do not include any costs for managing or supporting the Zoo’s capital fund-raising which will be allocated, in the future, as a direct (restricted) operating cost of the capital campaign funds.

The current \$1.3MM in unrestricted operating revenues generated from the development and sponsorship as a City agency reflects 2.5% of the Zoo’s operating revenues. With the new Board leadership, a ZooCo independent of the City of Toronto, and a new compelling “case for support”, the Zoo is poised to significantly increase its operating revenues from donations and sponsorships, including a renewed Annual Fund program. Within the projections, we have assumed a 5% annual growth of these revenues. In addition, while the pandas are on loan, the Zoo is positioned to raise \$5MM from corporate sponsors to promote the pandas over the next five years. The \$5MM corporate sponsors goal will support the Zoo’s conservation commitment to China over the five-year loan. The sponsorship opportunity has

tremendous "upside" for the Zoo and Board as the Zoo will attract over 7.4MM visitors during the next five years to the Zoo in addition to high media and public relations awareness, website presence and community awareness. The sponsorship from Fedex to provide "discounted" shipping of the panda food is included a separate revenue line item.

To add further confidence to the "operating fund-raising" goal, we developed the following table that identifies the "net" operating impact of the Zoo's development programs for the prior three years (2010 – 2012); the 2013 approved budget and our projections from 2014 – 2017 (while pandas on exhibit). The revenues identified are for the Zoo's unrestricted operating programs and do not include any capital projects or restricted revenues. There is no direct relationship between development expenses and revenues as one major donor can impact the gross and net margins. However, it is important to note that with new internal leadership within the Zoo's development functions and shift in governance, the net change from 2013 to 2017 is only \$176,000. As we have discussed throughout our involvement with the Toronto Zoo, with the shift in governance and new Board leadership, the Zoo's development programs and revenues are poised to dramatically increase.

Development Operating Programs	2010	2011	2012	2013	2014	2015	2016	2017
Operating Revenues	\$648,933	\$516,381	\$512,822	\$1,300,000	\$1,365,000	\$1,433,250	\$1,504,913	\$1,580,158
Develop. Operating Salaries	\$490,499	\$511,905	\$727,620	\$678,068	\$688,239	\$698,563	\$709,041	\$719,677
Develop. Operating Expenses	\$502,323	\$601,736	\$133,199	\$500,000	\$515,000	\$530,450	\$546,364	\$562,754
Net Operating Impact	(\$343,889)	(\$597,260)	(\$347,997)	\$121,932	\$161,761	\$204,237	\$249,508	\$297,727

As noted in the benchmark information section of this report, the Calgary Zoo reported \$2,850,000 in gross operating donations and sponsorships in 2012 and \$2,066,000 in 2011.

In addition, in reviewing the financial data from the old Toronto Zoo Foundation from 2001 through 2008 when the Foundation was dissolved, over these eight years, the Foundation generated, on average, \$1,073,000 gross annually from their annual fund, sponsorships and special events – all unrestricted operating funds. The Foundation's peak year was 2006 when it grossed \$1,244,000 from these operating programs while the lowest year was 2008 (the year that the Foundation was dissolved) when it generated only \$782,000. **Note:** Investment Income and restricted revenues from accounts and funds managed or held by the Foundation were not included in our review.

Deferred Revenues: The Deferred Revenue in the financial projections and historical data relates primarily to restricted funds for Grant Based conservation programs that are recognized subsequent to grant approval as expenses for the related projects are incurred. This is generally zero-sum gain as the amount of revenue recognized directly offsets expenses incurred. For this reason, we have projected that this line item will remain stable at \$1MM over the ten years.

Operating Expenses: Planning Assumptions

- **Salaries, Wages and Benefits:** Continue to be the largest expenditure category and account for 52% of the Zoo's total operating expenses, followed by Services and Rents at 26%, Materials and Supplies at 13% and Cost of Goods Sold at 3%.
 - ✓ Approval of the 2013 Recommended Base Budget for the Toronto Zoo will result in no incremental cost increase in 2014 and 2015, however the Zoo's Collective Agreements expire in March 2013 and negotiations will occur in 2013.
 - ✓ As a result, no estimates have been identified for salary increase for 2014 and 2015 at this time -- one of the considerations for a contingency allocation within the projections

Table 9 below summarizes the number of Toronto Zoo employees as of January 2013. We have assumed that all positions will convert, if the employee is willing, to the ZooCo with competitive salary and benefit structures and with the existing labour agreement(s) in place:

Department	Exempt	Union	Non-Perm	Total
General Management	2	0	0	2
Development	4	4	0.7	8.7
Corporate Planning and Human Resources	6	0	0.6	6.6
Wildlife Conservation & Education	3	0	0	3
Wildlife Care	7	73	6.7	86.7
Wildlife Health	4	11	1	16
Nutrition	1	6	1.3	8.3
Curatorial & Research	6	7	5.1	18.1
Education & Volunteers	3	4	10.4	17.4
Operations & Administration	2	0	0	2
Financial Services	4	6	1.3	11.3
Computer Services	3	1	0.3	4.3
Member & Guest Services	2	5	18.9	25.9
Retail & Rides	3	1	24.4	28.4
Safety & Security	18	2	7.8	27.8
Facilities & Services	6	34	5.4	45.4
Project Management	2	3	1.7	6.7
Horticulture	4	29	19.3	52.3
Marketing & Communications	2	0	0	2
Marketing & Public Relations	2	3	4.1	9.1
Business Development	0	0	1	1
Special Events & Community Relations	2	3	0	5
Totals	86	192	110	388

To support the servicing of the increased attendance levels including the new panda exhibit, 31.4 additional part-time/seasonal staff will be required in areas of guest servicing, special events, retail, animal care, safety and security, and facility services. All additional staffing will be temporary and will be adjusted in step with attendance through the five-year project. The salary & benefit projections for 2013 – 2017 support the 388 positions plus the noted 31.4 positions to support the panda exhibit and experiences.

Total salaries and benefits in the baseline year are approximately 54% of the Zoo's total operating expenses. Over the next ten years, and without pandas, this percentage will increase to approximately 58% of the Zoo's projected total operating expenses. Among AZA zoos that operate under private management and self-operate their visitor amenities, salaries and benefits as a percentage of total operating expenses ranges from 54% - 59%. AZA zoos typically found in the southern or southwest region of the US typically have the lower percentage of salaries and benefits as compared to their northern, western and northwest peer institutions.

- **Utilities:** In the 2013 baseline year, the Zoo's utility expenses were increases to reflect a more "typical" weather-year for the Toronto Zoo. In the prior three years, the Toronto region weather patterns have varied compared to "normal" years. In discussions with the Zoo's finance staff and to be conservative, we have increased the Zoo's utility expense line item to insure expense coverage of one of the Zoo's fixed expenditures, but one that can shift dramatically due to weather patterns. Since the Zoo is a "weather-dependent" attraction, it must have the resource allocations to insure that it operates through the various shifts in weather.

Utilities are 5.5% of the Zoo's total operating budget in the baseline year. This percentage remains stable throughout the next ten years.

- **Advertising:** The cost of purchasing "paid" marketing, awareness and media services, not including the salaries of the Zoo's marketing staff, remains approximately 3% of the Zoo's total operating expenses. Among AZA zoos with similar attendance and budgets, this percentage is on the low end as typically zoos spend between 4% - 6% of their total operating budget for purchased advertising services. However, with the pandas on exhibit over the next five years, the in-kind marketing, branding and awareness of the pandas "at the Toronto Zoo" will be very high so the "purchased services" can be lower.

In order to leverage the marketing and advertising momentum from the pandas, the Zoo must have a strong, creative marketing strategies that serve to engage residents, tourist and school groups as "panda followers" throughout the next five years – social media and the Zoo's website will be critical marketing and promotional tools for the Zoo to build upon.

After pandas, we have assumed that advertising expenses will continue to grow by 1% with advertising remaining at 3% of the Zoo's total operating expenses throughout 2022.

- **Operating Expenses:** For the Zoo's operating expenses, we have assumed the following:
 - ✓ 2% annual increase in Utilities, Wildlife Food, Materials & Supplies, Equipment, and Services & Rents.
 - ✓ 1% annual increase in Contracted Services and Advertising & Promotions expenses.
 - ✓ 3% annual increase in Development expense.
 - ✓ Panda: Adjustments made to expenditure line items to account for 5 year projected budget; Adjustment made in 2018 to account for end of pandas.

- **Contingency Expense:** An unallocated expense for the first five years that represents approximately 2% of the Zoo's total operating budget; could also be viewed as a "buffer" for the projected "incremental operating development revenues" (total of \$3.8MM in the initial five years; compared to the \$5MM in total contingency over the initial five years).

We have projected that the contingency expense will decline in the second five years as the Zoo will have improved performance tools in place to manage and control operating expenses.

- **Revenue Opportunities:** In addition to the attendance and operating budget projections, we identified a number of "revenue opportunities that will serve to strengthen the Zoo's long-term viability and sustainability. The new Toronto Zoo, with its new Board leadership, organizational independence and its compelling "case for support", can leverage the following opportunities:
 - ✓ **Sponsorship of Pandas (shipping):** "promotional discounts" on the cost of shipping of food for the pandas; the full-cost of the pandas animal food is contained in the five-year operating expense projections therefore we have identified the promotional discount value of the cost of shipping. Indirect services such as p/r and media exposure for shipping the browse (food) is not included.
 - ✓ **Sponsorship of the Pandas:** the Zoo will be aggressively seeking promotional sponsorships to cover the direct costs of the "panda agreement," specifically the Zoo's conservation commitment under the agreement. As noted earlier in our report, the Zoo has the opportunity to acquire \$5MM in sponsorships for a five-year sponsorship that will be seen on-site by over 7MM visitors, excluding social media, advertising, public-relations media sources and the Zoo's website and internet presence. Corporations have been unwilling to engage as corporate partners with the Zoo (as noted by the lack of a title sponsor for the pandas as of March 1st) until the shift in governance has been achieved to insure that their advertising and branding investments are leveraged over the next five years.
 - ✓ **Non-reoccurring and Operating Projects:** Are expense eliminations that are included in the baseline year but will not continue throughout the five years – higher transition costs in the baseline year. Since the baseline expenses are not amended, we continue to carry the offset in future years through 2017.
 - ✓ **Regional Partnership Support:** Must be a priority with the new Board leadership and we anticipate that the Board and the Zoo's new development team will cultivate new partners over the initial two years of transition with engagement from the partners (regional and Federal support; universities and higher-education; wildlife conservation organizations; mission-driven foundations) in years three through ten. We anticipate a "ramp-up" of these revenues in future years as the Zoo's brand and Board become better known and identified within the greater Toronto community.
 - ✓ **Leveraged Assets:** With the transition from City-managed to independently, private-managed Board governance, the Zoo will be able to better leverage its purchasing and buying power to reduce its operating expenditures – excluding salaries as

we are not assuming any net savings from the shift in staffing. Based on our experience with similar shift in governance, net leveraged savings ranges from 2% - 4% of total non-salary expenditures – this percentage typically increases over time as third-party vendors are more aggressive and purchasing power increases with usage and buying history. We have continued to show “savings” throughout the ten-year projections as annual expense growth is built utilizing the 2013 baseline year.

✓ **Incremental Development Resources:** As discussed above, development revenues are projected to increase by 5% annually with only a minor increase in the Zoo’s net operating revenues from its development programs. With the new Board and its leadership, development programs (contributed revenues from individuals, corporations, businesses, annual fund, non-panda sponsorships, among them) have the greatest opportunity for growth among all of the Zoo’s revenue sources. This revenue line item, commencing in year two of the transition, reflects the incremental growth beyond the anticipated 5% increase and helps to rebalance the Zoo’s the financial model. The primary source of new incremental revenues is “corporate and individual giving.” As noted in the benchmark data below, approximately 70% of the Calgary Zoo’s development revenues are generated from corporations with the remaining 30% from individuals.

From a sensitivity standpoint, the new incremental revenues reflect less than 2% of the Zoo’s overall operating revenues.

- **Fund Balances/Operating Reserves (Total Cumulative \$\$ Impact):** Reflects the annual and cumulative net operating revenues generated under the shift in governance model for the Toronto Zoo. The projected cumulative impact of \$18.4MM based on the attendance and operating assumptions outlined above would be managed and controlled by the Board and could be utilized for re-investment in the Toronto Zoo; operating reserves; establish an operating endowment; and/or to support future growth and development as determined by the Board and its leadership.

We have not included the use of or any interest earned from the Zoo’s Fund balances in our financial projections.

Reconciling the ten-year shift in City support – how does the Zoo remain viable without \$11MM in City support?

- While attendance from 2013 – 2022 will have declined by 75,000 visitors (comparing 2013 to 2022), annually, the Zoo will have earned or generated:
 - ✓ An additional \$4MM from its visitor-related programs;
 - ✓ Identified \$2.5MM annually from its partners
 - ✓ Leveraged \$1.2MM in operations savings while maintaining its operating expenses at the baseline (2013) level – with panda expenses.
 - ✓ Identified \$1.8MM in new contributed/development revenues to support the Zoo’s unrestricted operating programs

- Or a total impact of \$9.5MM of new incremental operating revenues annually while maintaining an Fund Balance of over \$18.4MM
- Independence, business-focused management and operating structure and thinking
- Strong Board leadership, engagement and willingness
- Commitment to its mission-driven vision
- Partnership with the City and the willingness to plan for success and not failure

Benchmark Data: Calgary Zoo Comparisons

Table 10: Operating Revenue & Expense Allocations from the Calgary Zoo

Admissions	8,820	9,149	
Grants: City of Calgary	6,990	7,019	21.4%
Food and Beverage	6,481	6,606	
Membership	3,008	3,030	
Donations, Sponsors & Fundraising	1,446	1,956	6.0%
Gift Services	2,537	2,584	
Programs	1,132	1,074	
Parking	864	785	
Other	218	296	
Investment Income	249	244	
Gain (loss) on sale of Investment	25	26	
Total	31,770	32,769	
Operating Expenses:			
Salaries, Wages & Benefits	16,313	17,082	59.6%
General and Administrative Amortization	5,882	5,511	
Cost of Goods Sold	3,238	2,942	
Facility Operations and Maintain	2,320	2,452	
Animal Upkeep	516	511	
Botanical	144	133	
Total	28,413	28,581	
Excess of Revenue Over Expenses	3,357	4,188	12.8%

Note: reflects 000's

Note on Calgary Zoo:

City operating support in terms of dollars is significantly less than Toronto but the City's operating support as a percentage of total operating revenues is only slightly less than Toronto's (21.4% compared to 25%0
 Calgary's "contributed operating revenues" amounts to 6% of the Zoo's operating revenues compared to 2.5% in Toronto - opportunities for growth
 Salaries & Benefits as a percentage of total operating expenses is very comparable
 Healthy bottom-line management under private management with a strong partnership with the City

Table 11: Allocation of Operating Expense Allocations

Expense Allocations	Toronto	Calgary	Granby
Salaries Wages & Benefits	62%	60%	42%
General & Administrative	7%	19%	28%
Cost of Good Sold	13%	10%	8%
Facilities & Botanical	13%	9%	12%
Animal Management	5%	2%	11%
Total	100%	100%	100%

Notes: Granby has lower salaries and benefits due to its more seasonal operating schedule. The range of percentages for animal management/care is a reflection of the composition of the various animal collections maintained.

Note: 2011 Financial Data

Table 12: Calgary Zoo Funding in past 5 years for Capital improvements from Private and Government sources

2012	\$1,031,650	\$2,902,932	\$125,000	\$4,059,582
2011	\$1,066,578	\$9,669,993	\$0	\$10,736,571
2010	\$999,696	\$5,362,189	\$25,000	\$6,386,885
2009	\$1,598,964	\$9,403,910	\$1,300,000	\$12,302,874
2008	\$1,143,072	\$3,224,829	\$6,414,000	\$10,781,901

Table 13: Funds raised by Development - break down by revenue stream (including pledges) for both operating and capital

Major Gift	\$3,551,470	\$4,733,778
Planned Giving	\$1,055,461	\$115,239
Annual Giving	\$278,347	\$474,728
Fundraising Gala Event	\$175,000	\$200,860
Zoo Events Sponsorship		\$66,752
Total Raised (including Pledges)	\$5,060,278	\$5,591,357

Notes: In 2012, the Calgary Zoo generated \$3.881MM from "private sources" with corporate partners providing approximately 70% (\$2.71MM) and gifts from individuals generating approximately 30% (\$1.181MM) of the total.

Funding Benchmarks: AZA US Zoos with a Shift in Governance – provided in September 5, 2012 report to the Zoo Task Force

S&W recently completed a funding survey of six AZA zoos that have completed a shift in governance from a public-managed facility to a new public/private partnership governance model. S&W analyzed the funding shifts from pre/post governance transition for the following zoos with the date of transition noted: Atlanta (1985), Woodland Park (Seattle) (2002), Sacramento (1997), Houston (2002), Detroit (2006) and Dallas (2009) Zoos.

The shift in governance of the six zoos provided the following summary findings:

- ✓ Annual attendance for all seven zoos has increased from the transition year to the current year
- ✓ Annual public-sector funding (City) as a percentage of the zoo's total operating revenues in 2010 averaged 31.3% - compared to the Toronto Zoo's 25% in 2012 and the Calgary Zoo's 20% in 2012.
- We utilized 2010 data as all of the benchmarked zoos were able to provide financial data as of this date

- The annual percentage of public-sector support ranged from a high of 53.2% for the Dallas Zoo (shift occurred in 2009) to a low of 11.1% for the Sacramento Zoo; Zoo Atlanta privatized in 1985 does not receive any public-sector operating support due to the then management agreement, however, Zoo Atlanta continues to have significant financial challenges and debt even with pandas on exhibit (Chart 1).

Chart 1

Dallas Zoo	\$10,800,000	\$20,285,000	53.2%
Detroit Zoo	\$7,587,335	\$37,792,000	20.1%
Houston Zoo	\$8,381,000	\$29,002,000	28.9%
Sacramento Zoo	\$582,421	\$5,312,000	11.0%
Woodland Park Zoo	\$10,022,523	\$30,159,000	33.2%
Zoo Atlanta	\$0	\$15,000,000	0.0%

Note: Zoo Atlanta has not received City funding support since 1990; unfortunately, at the time of transition in 1985 the City and the Society agreed to eliminate City support within 5 years of the transition date.

- Earned and contributed operating revenues increase significantly within all six zoos from the year of transition to 2010 – (See Chart 2 and Chart 3). Note: the decline in the Dallas Zoo’s contributed revenues was planned and reflects the impact of the zoo transitioning in 2009 – therefore, only one year of reporting. The contributed revenues declined as a result of the Zoo’s strategic planning as unrestricted revenues were utilized in 2009 to fund part of the transition (one-time) costs of the shift in governance.

Chart 2

Dallas Zoo	\$3,697,000	\$6,240,000	69%
Detroit Zoo	\$9,972,879	\$14,650,178	47%
Houston Zoo	\$6,067,000	\$18,228,000	200%
Sacramento Zoo	\$2,292,828	\$3,635,804	59%
Woodland Park Zoo	\$10,815,424	\$15,027,314	39%
Zoo Atlanta	\$2,000,000	\$13,000,000	550%

Chart 3

Dallas Zoo	\$4,340,000	\$3,245,000	-25%
Detroit Zoo	\$6,396,419	\$15,514,969	143%
Houston Zoo	\$1,077,000	\$2,393,000	122%
Sacramento Zoo	\$490,835	\$1,093,974	123%
Woodland Park Zoo	\$2,933,513	\$5,108,908	74%
Zoo Atlanta	\$240,000	\$2,000,000	733%

Note: By comparison, the Toronto Zoo reported \$990,000 in 2010 net of programs/project revenues (\$870,000 in 2009, net of programs and project revenues). The Toronto Zoo's "contributed revenues" are primarily from annual giving, direct response, adopt-an-animal, major gifts and sponsorships.

Based on the our review of the Calgary Zoo's finances and our review of the financial statements of the Royal Ontario Museum and Ontario Science Centre, there are opportunities to significantly increase the Zoo's operating revenues generated from contributed sources including sponsorships, annual giving and major gifts. The Ontario Science Centre, with its 1.3 million visitors, generated \$1,502,000 in operating sponsorships and donations in 2010 and \$1,544,000 from sponsorships and donations in 2009. A compelling case for support coupled with a new Zoo vision and the leadership support of business and community stakeholders will position the Zoo to cultivate, solicit and engage the Toronto community in supporting the Zoo's vision and future funding needs.

- Zoos that have transitioned from public-managed to a public/private partnership model have raised significant capital funding for its facilities and programs (non-operating) – (see [chart 4](#)). The chart below reflects total private and public resources generated since the date of transition.

Chart 4

Dallas Zoo	\$7,500,000	\$26,000,000
Detroit Zoo	\$36,536,000	\$62,117,000
Houston Zoo	\$62,000,000	\$5,200,000
Sacramento Zoo	\$2,918,899	\$2,300,000
Woodland Park Zoo	\$53,572,961	\$90,041,200
Zoo Atlanta	\$47,000,000	\$30,000,000



***Toronto Zoo New Governance Plan
Strategic Business Plan Update
Addendum August 21, 2013***



August 21, 2013

Introduction

Schultz & Williams has provided this addendum update to our March 18, 2013 strategic business plan to reflect the following information:

1. Ten-Year Financial Operating Projections (2014 – 2023) with no City of Toronto operating support in years 2022 and beyond. The updated financial projections reflect the March 18th projections except that we deleted FY 2013 projections and added our projections for FY 2023. The planning assumptions that guide the 2023 are contained in the March 18th report.
2. Transition Costs for the Shift from City to ZooCo – based on our experience with other similar zoo transitions in North America and not include any related or associated employee/employment costs.
3. Opportunities to Reduce Operating Expenses – a potential list of “savings” that needs further discussions.

We have provided the following information for your review.

Planning Projections for Years 2014 – 2023

Visitor Experiences and New Animal Exhibits

In addition to exhibiting pandas from May 2013 through April 2018, the Zoo anticipates that a number of new visitor experiences and animal exhibits will be completed and open to visitors during the next ten years to create that “compelling reason to visit” the Toronto Zoo. The pandas will continue to be the primary focus and special events celebrating their activities and growth will be planned throughout their five-year visit. The current implementation strategies to support the Zoo’s projected attendance are outlined below:

Year	Attendance	Visitor/Animal Experiences
2015	1,400,000	Pandas & Adventure Play
2017	1,500,000	Pandas: Final Year
2019	1,400,000	Orangutan
2021	1,500,000	Canadian Wilderness
2023	1,525,000	Seasonal Attraction

New visitor experiences and animal exhibits will be funded through the Zoo’s new fundraising plan for capital investment – supported through contributions from individuals, corporations and partners. The visitor/animal experiences are in addition to the projects supported through the City’s State of Good Repair fund which could involve improvements to the existing visitor experiences.

Seasonal attractions would operate during the Zoo's peak operating season (April – September, maybe less) and would include attractions that create a "must see" visitor for residents, tourist and members. Seasonal attractions could include the new robotic Giant Bugs exhibit; Insects of the World or an Insectarium; the next evolution of water or adventure play experiences for children of all ages; 4D Light or Animal experiences; special exhibits/events or conservation parades with local theater or universities; Lego animals, among others to be created over the next ten years for zoos and other cultural attractions. Visitors respond to limited-run engagements/experiences with a compelling "must see now" marketing tag-line.

Since the City of Toronto will continue to own all of the facility assets, and any future improvements funded in whole or part by ZooCo, the City as part of its management agreement with ZooCo must annually provide \$6MM (net, adjusted annually by rates of inflation) via its Capital Works Program under the current State of Good Repair initiatives. ZooCo will focus on engaging private donors to invest in "new" initiatives (new animal exhibits, educational programs and mission-driven conservative initiatives) with the City as an equal partner in funding its "deferred maintenance" projects and improvements. Based on our experience and expertise, ZooCo and its Board will fail to convince new donors to invest in "infrastructure improvements." However, with a compelling "updated" facility master plan, ZooCo and the City could leverage one another to engage donors while maintaining its deferred maintenance needs. The City ongoing funding of the State of Good Repair is critical in leveraging the new partnership with corporate and individual donors.

The updated ten-year financial operating projections are identified on the following page.

Marketing Focus #1 Marketing Focus #2	Panda 2014	Panda Refreshed P 2015	Panda Attraction #1 2016	Panda 2017	50% Panda New Animals 2018	Attraction #2 2019	New Animals Attraction #3 2020	New Animals Attraction #3 2021	Attraction 2022	Seasonal Attraction 2023
Attendance	1,500,000	1,400,000	1,400,000	1,500,000	1,500,000	1,400,000	1,450,000	1,500,000	1,525,000	1,525,000
OPERATING REVENUE:										
City of Toronto Appropriation	11,443,388	10,943,388	9,943,388	8,943,388	8,443,388	8,443,388	5,943,388	3,443,388	0	0
Capital works contributions	171,000	171,000	171,000	171,000	171,000	171,000	171,000	171,000	171,000	171,000
Admission	16,159,418	15,836,230	15,836,230	16,967,389	16,967,389	16,311,317	17,182,500	18,308,250	19,171,789	19,363,507
Food services	6,528,072	6,214,725	6,339,019	6,927,642	7,200,000	6,820,800	7,170,366	7,528,884	7,769,181	7,885,719
Membership	3,961,208	4,060,000	4,060,000	4,350,000	4,350,000	4,181,800	4,331,150	4,480,500	4,600,222	4,738,749
Gift shop operations	3,244,000	3,073,149	3,119,247	3,392,181	3,443,063	3,261,729	3,428,892	3,600,337	3,715,248	3,770,976
Parking	3,240,000	3,066,000	3,066,000	3,300,000	3,300,000	3,472,000	3,596,000	3,720,000	3,782,000	3,782,000
Other revenue and recoveries	1,125,000	1,030,000	1,030,000	1,125,000	1,125,000	1,050,000	1,050,000	1,086,207	1,123,662	1,162,409
Rides & rentals	1,209,667	1,145,958	1,163,147	1,264,923	1,283,896	1,216,278	1,278,612	1,342,543	1,385,392	1,406,173
Education programs	939,406	933,497	933,497	1,021,604	1,050,000	1,050,000	1,087,500	1,125,000	1,143,750	1,143,750
Development Sponsorships Annual Fund	1,365,000	1,433,250	1,504,913	1,580,158	1,659,166	1,742,124	1,829,231	1,920,692	2,016,727	2,117,563
Funding from deferred revenue	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
TOTAL OPERATING REVENUE	50,386,159	48,947,196	48,206,440	50,043,285	49,992,903	48,720,435	48,068,639	47,726,801	45,879,476	46,541,846
OPERATING EXPENSES										
Salary and Benefits	28,314,904	28,632,628	29,062,117	29,808,049	29,480,169	29,922,372	30,371,208	30,826,776	31,289,177	31,758,315
Utilities	2,897,519	2,955,469	3,014,579	3,074,870	2,836,368	2,893,095	2,950,957	3,009,976	3,070,176	3,131,579
Wildlife Food	1,364,359	1,391,646	1,419,479	1,447,869	920,826	938,243	938,027	977,188	996,732	1,016,666
Materials and Supplies	2,315,424	2,321,733	2,368,167	2,455,530	2,284,641	2,330,334	2,376,941	2,424,479	2,472,969	2,522,428
Equipment	698,819	682,795	696,451	710,380	724,588	739,080	753,861	768,938	784,317	800,004
Contracted Services	2,044,565	2,065,011	2,085,661	2,106,517	930,300	939,300	948,693	958,180	967,762	977,439
Advertising and Promotions	1,654,707	1,671,254	1,687,967	1,704,846	1,575,000	1,590,750	1,606,658	1,622,724	1,638,951	1,655,341
Services and Rents	3,722,395	3,635,840	3,675,224	3,333,729	2,895,805	2,953,721	3,012,796	3,073,052	3,134,513	3,197,203
Development	515,000	530,450	546,364	562,754	579,637	597,026	614,937	633,385	652,387	671,958
Food Services	5,081,326	4,733,191	4,754,264	5,126,455	5,184,000	4,910,976	5,162,664	5,420,797	5,593,810	5,677,718
Retail Cost of Sales	1,496,967	1,382,917	1,403,661	1,526,481	1,514,948	1,435,161	1,508,713	1,584,148	1,654,709	1,621,520
Contingency	1,000,000	1,000,000	1,000,000	1,000,000	400,000	400,000	400,000	400,000	400,000	400,000
TOTAL OPERATING EXPENSE	51,305,985	50,992,934	51,713,933	52,877,483	49,325,982	49,651,057	50,665,453	51,699,643	52,635,503	53,430,371
Excess (deficiency) of Revenue/Expenses	(919,826)	(2,049,737)	(3,507,493)	(2,834,198)	666,920	(930,622)	(2,596,814)	(3,972,842)	(6,756,027)	(6,888,525)
Revenue Opportunities:										
Sponsorship of Panda Food: Fedex	550,000	550,000	550,000	550,000	0	0	0	0	0	0
New Sponsorships	600,000	800,000	800,000	1,000,000	0	0	0	0	0	0
Non-recurring panda expenses	100,000	100,000	100,000	100,000	0	0	0	0	0	0
Operating Projects	300,000	200,000	200,000	200,000	0	0	0	0	0	0
Regional Partnership Support	0	500,000	1,000,000	1,000,000	1,250,000	1,250,000	1,250,000	1,500,000	2,500,000	2,500,000
Leveraged Assets	975,000	960,000	1,210,000	1,225,000	1,225,000	1,210,000	1,217,500	1,225,000	1,228,750	1,350,750
Subtotal	2,525,000	3,110,000	3,860,000	4,075,000	2,475,000	2,460,000	2,467,500	2,725,000	3,728,750	3,400,750
Net Impact with Opportunity Revenues	1,605,174	1,064,263	352,507	1,240,802	3,141,920	1,529,378	(129,314)	(1,247,842)	(3,027,277)	(2,787,775)
Incremental Development: Operating	500,000	1,000,000	1,000,000	1,300,000	1,500,000	1,800,000	1,800,000	1,800,000	1,800,000	2,000,000
Potential Total Financial Impact	\$2,105,174	\$2,064,263	\$1,352,507	\$2,540,802	\$4,641,920	\$3,329,378	\$1,670,686	\$552,158	\$(1,227,277)	\$(787,775)
Total Cumulative \$\$ Impact	\$5,422,860	\$7,487,122	\$8,839,629	\$11,380,431	\$16,022,351	\$19,351,730	\$21,022,416	\$21,574,873	\$20,347,297	\$19,559,522
Development Capital Projects: Restricted	\$2,000,000	\$3,000,000	\$5,000,000	\$5,000,000	\$5,000,000	\$2,500,000	\$2,500,000	\$2,500,000	\$2,500,000	\$2,000,000

Visitor Per Capita Spending Projections

To support the updated ten-year financial projections, we have outlined the annual per capita spending projections below:

Per Capita Revenue Projections	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Admission	10.77	11.31	11.31	11.31	11.31	11.65	11.85	12.21	12.57	12.70
Food services	4.35	4.44	4.53	4.62	4.80	4.87	4.95	5.02	5.09	5.17
Membership	2.64	2.90	2.90	2.90	2.90	2.99	2.99	2.99	3.02	3.11
Gift shop operations	2.16	2.20	2.23	2.26	2.30	2.33	2.36	2.40	2.44	2.47
Parking	2.16	2.19	2.19	2.20	2.20	2.48	2.48	2.48	2.48	2.48
Other revenue and recoveries	0.81	0.82	0.84	0.85	0.86	0.87	0.89	0.90	0.91	0.93
Rides & rentals	0.81	0.82	0.83	0.84	0.86	0.87	0.88	0.90	0.91	0.92
Education programs	0.63	0.65	0.65	0.65	0.70	0.65	0.68	0.68	0.68	0.68

The per capita spending rates are conservative based on the visitor/animal experiences and rate increases noted above.

Transition Costs

Typically, transition costs would be funded jointly by the City and the new ZooCo and depending on the timeline for transition would include the following "start-up" costs for:

- Technology: new phone system, computers/upgrades, new servers, web-enhancements, software licenses, consultants
- Signage/Graphics: new banners at the Zoo; printing of new maps, brochures and on-site signs (*critical for the Zoo's branding*)
- Equipment for Operations: heavy equipment for maintenance & repairs, vehicles for maintenance & operations
- Training: employee and volunteers
- Facility Master Planning: updating the Zoo's current plan
- Start-Up/Working Capital: transition planning, human resources/benefit consultants, equipment/vehicles, supplies and services
- Visitor Amenities & Experiences: new short-term marketing experiences and programs that creates a reason to visit the Zoo

For the purposes of this update, we have assumed that all current Toronto Zoo employees would shift to the new ZooCo and be offered employment. ZooCo will offer an employment agreement that will identify the job position, annual salary and related employer/employee conditions. The City of Toronto will be responsible for any accrued employment benefits due to the Zoo employees at the time of the shift from City to ZooCo management – accrued vacation, sick and their pension liability. The cost of these accrued employment benefits are NOT included in the transition costs noted below.

Based on other shifts in governance studies for North America zoos, we would estimate that the “transition costs” to range from \$3MM - \$4.5MM. If funding for the transition costs is not identified, it will add additional pressure on the Zoo’s annual operating budget and deferred maintenance expenditures as the Zoo will need to fund these required costs to insure its viability and sustainability.

Opportunities to Reduce the Zoo’s Operating Expenses

Although each of the identified potential opportunities will need further discussion with the Zoo, based on our experience with working with North America Zoos, we have outlined some potential opportunities to reduce the Zoo’s current operating expenses - Note: Given the ~60% of the Zoo’s operating expenses are personnel/employment related and at least another 25% of the total operating expenses are fixed annual expenditures (utilities, animal food, vet services, cost of goods for food services and retail sales), the annual net “variable” operating expenses are less than 15% - less than \$7MM annually. This represents a very small percentage for a weather-dependent cultural, recreational attraction with very little opportunity to reduce annually operating expenses assuming that there is no reduction in staff positions.

1. Utilities: negotiate preferred City rates for the Zoo with “annual growth caps.”
2. Reduce the size/acreage of the Zoo: potentially close some portions of the Zoo to visitors and reduce the number of exhibiting animals – **not recommended as a direct impact on the quality of the visitor experience.** An updated facility master plan could explore these options and potentially identify exhibits/experiences that serve to raise the Zoo’s brand and awareness while reducing its current financial operating obligations. As the Zoo’s leadership understands, balancing the visitor and animal experiences for the fees generated needs careful consideration.
3. Assess opportunities to operate on a most “seasonal” operating schedule: less operating hours in the winter and potential longer hours in the summer – similar to theme parks

4. Reduce Advertising & Promotions by partnering with Sponsors: ***We would not recommend reducing the Zoo's marketing and advertising*** expenditures (probably need to spend more without City support) – but if ZooCo could partner with other well-branded companies within the Toronto marketplace with creative advertising strategies, there could be some potential annual savings.
5. Increase Regional Partnership Support: Could generate additional operating revenues through partnerships with other governmental agencies and commissions. Again, having strong community and business leaders involved with ZooCo is critical for the successful implementation of this strategy. At the same time, ZooCo must be a viable and sustainable financial and community resource (therefore the continued investment from the City of Toronto in the Zoo) to remain attractive to sponsorship and major gift funding from the business and private sectors.