

S50B
Maryland African American Museum Corporation

Operating Budget Data

(\$ in Thousands)

| | <u>FY 06</u> <u>Actual</u> | <u>FY 07</u> <u>Working</u> | <u>FY 08</u> <u>Allowance</u> | <u>FY 07-08</u> <u>Change</u> | <u>% Change</u> <u>Prior Year</u> |
|--------------------|-------------------------------|--------------------------------|----------------------------------|----------------------------------|--------------------------------------|
| General Fund | \$3,025 | \$2,714 | \$2,149 | -\$565 | -20.8% |
| Total Funds | \$3,025 | \$2,714 | \$2,149 | -\$565 | -20.8% |

- General funds decline dramatically in fiscal 2008 because the State has intended to reduce support from 75 to 50% of the operating budget in 2008.

Analysis in Brief

Major Trends

Strategic Plan Update Is Nearing Completion: The Maryland African American Museum Corporation (MAAMC) strategic plan from fiscal 2001 serves as a five-year plan that identified goals and objectives for the organization as well as potential challenges to success. The corporation reports that its next five-year plan is expected to be completed in spring 2007.

Issues

Year One Attendance Lagged the Revised Goal: The museum met 80% of its attendance goal in its first year, bringing in 104,532 people, and 87% of its attendance-based revenue goal, earning \$519,217. These goals were revised down by half from the original goals. For the fiscal 2008 budget, the museum expects to increase attendance-based revenues 30% over 2007. **The Department of Legislative Services (DLS) recommends that MAAMC comment on how visitor attendance can be expected to increase in fiscal 2008 and the implication if the museum does not reach its target attendance revenues.**

Note: Numbers may not sum to total due to rounding.

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As Planned, General Fund Grant Falls to 50% of Fiscal 2008 Budget: There has been a general understanding, reiterated by budget bill language, that the State intended to fund 75% of the museum's operations through fiscal 2007 and 50% thereafter. To cover fiscal 2008 expenditures, the museum's revenues from fundraising and membership dues will have to be quadrupled, and admissions revenues will have to increase by one-third, among other private fund increases. **DLS recommends that MAAMC brief the committees on how it expects to increase fiscal 2008 revenues from fundraising, membership dues, and admissions.**

Museum Has Its \$6 Million Endowment in Low-earning Investments: MAAMC reports that it is keeping its endowment funds in two-week certificates of deposit until it meets with an investment advisor and develops a long-term investment plan. **DLS recommends that budget bill language be added that restricts half of the museum's general fund grant until the museum selects an investment advisor, invests its endowment funds according to a long-term investment plan, and completes an endowment draw policy.**

Recommended Actions

1. Add language that expresses intent for the fiscal 2009 general fund grant.
2. Add language that restricts half of the general fund grant until a report on endowment funds is submitted.
3. Adopt narrative that requests a memorandum of understanding on use of the fiscal 2008 general fund grant.

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Maryland African American Museum Corporation

Operating Budget Analysis

Program Description

The Maryland African American Museum Corporation (MAAMC) was created by Chapters 428 and 429 of 1998 to plan, develop, and manage a Maryland Museum of African American History and Culture in Baltimore City. The museum opened in June 2005.

The museum's mission is to educate the public about the contributions and experiences of African American Marylanders; to provide research facilities for scholars, students, and others; and to provide public programming, educational opportunities, and community outreach. The corporation is a public instrumentality and an independent unit in the Executive Branch. A 37-member board of directors manages the corporation's affairs.

Performance Analysis: Managing for Results

Strategic Plan Update Is Nearing Completion

MAAMC is not a State agency and thus does not participate in the State's Managing for Results program. However, under Article 41 §20-105(b)(1), the corporation is required to prepare an overall strategic plan that establishes both short- and long-term goals and objectives for the museum. MAAMC submitted a strategic plan prior to the 2002 legislative session to guide its activities for five years. The corporation reports that its next five-year plan is expected to be completed in spring 2007.

The original plan included an environmental scan of the area defined as the museum's market. A number of potential challenges to success were identified, including (1) the need to recognize and plan for an industry standard second-year slip in attendance; (2) a new African American museum in the District of Columbia; (3) transportation issues for students and visitors; (4) long-term parking needs for school and tour buses; (5) an anticipated reduction in State funding; (6) potential poor attendance and economic downturn; and (7) lack of a sufficient marketing budget. Another potential challenge (not mentioned in the plan) is obtaining corporate and other private donations to support operations. The goals, objectives, and strategies laid out in the plan attempt to address these concerns.

- **Visitor Attendance:** The 2001 plan indicated that the corporation expected about 261,000 visitors during the museum's first year of operation, dropping to and stabilizing at about 130,000 visitors by year three. The expected decline in visitors reflects the end of what is commonly referred to as the "honeymoon" period of a major attraction's opening. In accordance with the strategic plan, MAAMC developed a marketing and public relations plan in September 2003.

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- **Educational Programs:** The strategic plan identified a goal to implement teacher training and student curriculum with the Maryland State Department of Education.
- **Finances:** The 2001 plan indicated that the corporation's financial goals include establishment of a \$6.0 million endowment by 2004; attendance-based revenues of \$1.2 million, \$900,000, and \$600,000 for operating years one, two, and three, respectively; annual revenues of about \$1.0 million from membership fees, donations, gifts, and fundraising sponsorships; and development of a diverse revenue base from food sales, theater events, festivals, foundation grants, traveling exhibits, tours, and public programs.

In June 2002, the museum received a \$5.0 million endowment grant for educational activities payable at \$1.0 million per year from the Reginald F. Lewis Foundation. With this contribution, the foundation secured naming rights for the museum. Furthermore, the museum received a \$1.0 million challenge grant from the National Endowment for the Humanities.

- **Exhibits:** The corporation has completed its master exhibit plan and is developing a visitor evaluation program to get feedback on its exhibits. The museum plans to rotate the temporary exhibits two to three times per year to maintain visitor interest.
- **Other Programs:** The corporation has established a museum store, theater, café, and space that may be rented for events. These programs contribute to museum revenues.

Governor's Proposed Budget

State support for MAAMC is budgeted as a general fund grant. As shown in **Exhibit 1**, the fiscal 2008 allowance is \$564,967 (20.8%) below the 2007 working appropriation. General funds decline dramatically because, since fiscal 2002, the State has intended to reduce support for the operating budget to 50% in fiscal 2008. The allowance covers this proportion.

MAAMC is required to provide matching funds from private sources to support operating costs (however, no match was required for a \$650,000 supplemental appropriation provided in fiscal 2006). To cover expenditures in fiscal 2008, the corporation will have to increase its private revenues by 138%. The status of the corporation's private revenue match is further discussed in Issue 2.

Major increases in fiscal 2008 are for salaries and wages, fuel and utilities, and contractual services, as shown in Exhibit 1. Salaries and wages increase because of a cost-of-living adjustment, higher health care and retirement plan costs, salary increments, and two new positions. MAAMC reports that security services and exhibit preparation are the primary drivers of contractual service increases.

Exhibit 1
MAAMC Expenditures and Revenues
Fiscal 2005-2008
(\$ in Thousands)

| | <u>2005</u> | <u>2006</u> | <u>Working Appropriation 2007</u> | <u>Allowance 2008</u> | <u>Change 2007-08</u> | <u>% Change</u> |
|---------------------------------|----------------|----------------|---|---------------------------|---------------------------|-----------------|
| Regular Salaries and Wages | \$1,039 | \$1,437 | \$1,629 | \$1,921 | \$292 | 17.9% |
| Contractual Employees | 88 | 342 | 171 | 165 | -5 | -3.2% |
| Fuel and Utilities | 267 | 420 | 454 | 589 | 135 | 29.7% |
| Contractual Services | 1,611 | 1,698 | 1,018 | 1,263 | 245 | 24.1% |
| Other Operating Costs | 473 | 431 | 347 | 360 | 13 | 3.9% |
| Total | \$3,477 | \$4,330 | \$3,619 | \$4,298 | \$679 | 18.8% |
| General Funds | \$2,165 | \$3,025 | \$2,714 | \$2,149 | -\$565 | -20.8% |
| Privately Raised Revenue | \$1,312 | \$1,305 | \$905 | \$2,149 | \$1,244 | 137.6% |

MAAMC: Maryland African American Museum Corporation

Note: The General Assembly has funded 75% of the museum's budgeted costs through fiscal 2007. However, the museum exceeded the budgeted amounts in fiscal 2005 and 2006 and so the State's grant makes up a smaller portion of actual expenditures in those years. Fiscal 2006 general funds included a \$650,000 supplemental appropriation for one-time expenses related to the grand opening of the museum.

Source: Governor's Budget Books, Fiscal 2006-2008

Issues

1. Year One Attendance Lagged the Revised Goal

The museum met 80% of its revised attendance goal in its first year, bringing in 104,532 people, as shown in **Exhibit 2**. The goal was 130,000 visitors. Also, the museum met 87% of its attendance-based revenue goal, earning \$519,217 as compared to the goal of \$600,000. It is important to note that the goals are half of what was originally planned. According to the fiscal 2001 MAAMC strategic plan, the original goal for visitor attendance during the first year was 261,000, and the goal for attendance-based revenues was \$1.2 million. MAAMC revised down the goals in January 2005.

In the second year (fiscal 2007), the museum is expected to have about 70% of the attendance and attendance-based revenues it attained in the first year. This corresponds to the goals for the second year, which are approximately 30% lower than year one goals to account for an attendance drop-off that museums often experience after their first year. Although the lower attendance level may still meet the goal, the fiscal 2008 budget is predicated on increasing attendance-based revenues 33% over 2007, as discussed in Issue 2.

Exhibit 2
Visitor Attendance and Revenues
Fiscal 2006-2007

| | Year One (2006) <u>Actual</u> | Year One Revised <u>Goal</u> | % of Goal <u>Attained</u> | Year Two (2007) <u>Estimated</u> |
|---------------------------|--|---|--------------------------------------|---|
| Attendance | 104,532 | 130,000 | 80% | 75,159 |
| Attendance-based Revenues | \$519,217 | \$600,000 | 87% | \$334,000 |

Notes: Attendance includes those who pay membership dues and have free entrance to the museum; however, revenues from membership dues are accounted for separately and are not included in the attendance-based revenue figures. Likewise, revenues from rental spaces are accounted for separately, although those who attend events in rental spaces have access to the museum exhibits. June 25 (grand opening day) to June 30, 2005 data are included in the fiscal 2006 data.

Source: Maryland African American Museum Corporation

Attendance-based revenues represent admissions fees. Although revenues from membership dues and rental spaces are related – because members have free entrance and guests at events in rented spaces have access to the exhibits – they are accounted for separately. Attendance figures include scheduled school group tours, which were 17,622 (17%) of the fiscal 2006 total. Except for

Title I schools, which have predominately low-income students, the students pay a museum admission fee of \$3 to \$5. Admission fees for Title I schools and other community groups are covered by a \$300,000 multi-year grant from the Weinberg Foundation.

The Department of Legislative Services (DLS) recommends that MAAMC comment on how visitor attendance can be expected to increase in fiscal 2008 and the implication if the museum does not reach its target attendance revenues.

2. As Planned, General Fund Grant Falls to 50% of Fiscal 2008 Budget

There has been a general understanding, reiterated by budget bill language, that the State intended to fund 75% of the museum's operations through fiscal 2007 and 50% thereafter. These terms are not specified in statute, and so the budget committees adopted narrative in the 2005 and 2006 legislative sessions requesting that MAAMC and the Department of Budget and Management (DBM) submit a Memorandum of Understanding (MOU) outlining the terms and conditions of the general fund grant. DBM and MAAMC submitted the memoranda for fiscal 2006 and 2007 as requested.

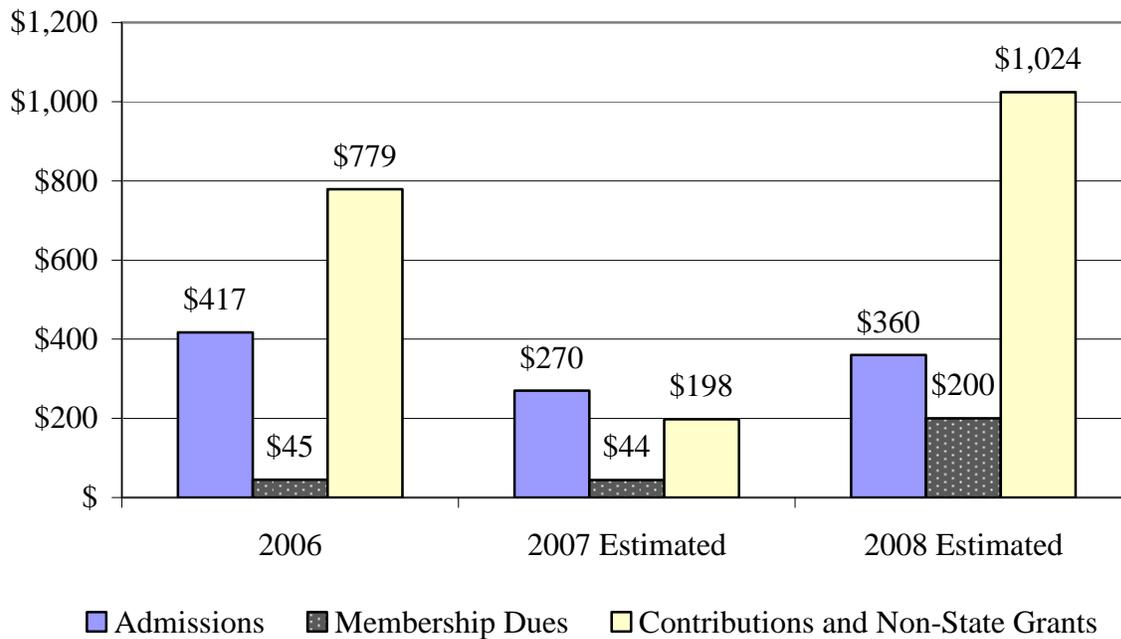
Fiscal 2008 Budget Banks on Growth in Fundraising, Membership Dues, and Visitor Attendance

In fiscal 2008, MAAMC is expected to raise 50% of its total operating budget from private sources. To cover fiscal 2008 expenditures, the museum plans to dramatically increase fundraising, membership dues, and admissions, as shown in **Exhibit 3**. Some smaller sources of private funds, including rental fees and investment income, are also budgeted to increase.

Revenues from fundraising and membership dues will have to be quadrupled, and admissions revenues will have to increase by one-third. Among other actions, MAAMC plans to have more exhibits in its temporary exhibit space to draw more visitors, and it plans to develop a corporate membership package to boost membership revenue. Also, the museum has received a challenge grant from the Eddie & Sylvia Brown Foundation that will provide up to \$1 million.

DLS recommends that MAAMC brief the committees on how it expects to increase fiscal 2008 revenues from fundraising, membership dues, and admissions.

Exhibit 3
Major Sources of Private Funds
Fiscal 2006-2008
(\$ in Thousands)



Source: Maryland African American Museum Corporation

3. Museum Has Its \$6 Million Endowment in Low-earning Investments

MAAMC received a \$5 million pledge from the Reginald F. Lewis Foundation in June 2002 to serve as an endowment for educational programs. The contribution was payable at \$1 million per year, and as of June 2006, the whole amount was received. Another \$800,000 has been received for the educational endowment from the National Endowment for the Humanities. Also, the museum has \$90,000 that serves as an endowment for general operating expenses.

MAAMC reports that it is keeping the endowment funds in two-week certificates of deposit until it meets with an investment advisor and develops a long-term investment plan. The museum likely could earn significantly more from investment income if the funds were placed in diversified investment vehicles. In fiscal 2006, the museum had \$129,168 in investment income, representing about a 2.7% rate of return on \$4,734,500, which was the endowment level during that year. If the funds earned 6%, which is not implausible, the investment income would have more than doubled to

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\$284,070. The museum expects to earn a higher rate of return on its investments in fiscal 2007 (4.9% if the rate of return from the first seven months of the year is annualized). However, the investments still are in short-term vehicles.

The State is a partner in the financial position of the museum, evidenced by its funding of \$29 million for capital expenditures and continuing support of one-half of the operating budget. As such, the State has an interest in how the museum handles its funds from private sources.

DLS recommends that budget bill language be added that restricts half of the museum's general fund grant until the museum selects an investment advisor, invests its endowment funds according to a long-term investment plan, and completes an endowment draw policy.

Recommended Actions

1. Add the following language to the general fund appropriation:

, provided that it is the intent of the General Assembly that the fiscal 2009 general fund grant to the Maryland African American Museum Corporation supports no more than 50 percent of the operating costs of the museum.

Explanation: This language is consistent with previously expressed intent of the General Assembly concerning the level of State support provided to the Maryland African American Museum Corporation.

2. Add the following language to the general fund appropriation:

, provided that \$1,074,516 of this appropriation may not be expended until the Maryland African American Museum Corporation submits a report to the budget committees indicating that it has selected an investment advisor, outlined a long-term investment plan that includes a balance of equities and fixed-return investments, invested its endowment funds according to the long-term investment plan, and completed an endowment draw policy. The budget committees shall have 45 days from the date of receipt of the report for review and comment.

Explanation: The Maryland African American Museum Corporation (MAAMC) has an endowment that totals nearly \$6 million in fiscal 2007. The museum reports that it is keeping these funds in two-week certificates of deposit until it meets with an investment advisor and develops a long-term investment plan. The museum likely could earn significantly more from investment income if the funds were placed in diversified investment vehicles. The State is a partner in the financial position of the museum; therefore, the State has an interest in how the museum handles its funds from private sources.

| Information Request | Author | Due Date |
|--|---------------|-----------------------------------|
| Investment and management of endowment funds | MAAMC | 45 days before funds are released |

3. Adopt the following narrative:

Memorandum of Understanding on Use of the General Fund Grant: The Maryland African American Museum Corporation (MAAMC) and the Department of Budget and Management (DBM) executed a Memorandum of Understanding (MOU) governing use of MAAMC's general fund grant for fiscal 2007. The committees request that a similar MOU be executed for fiscal 2008. The MOU should specify that the State intends to support no more than 50% of MAAMC's operating costs in fiscal 2008, which is consistent with previously expressed intent of the General Assembly.

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| Information Request | Authors | Due Date |
|--|----------------|-----------------|
| MOU specifying use of the fiscal 2008 general fund grant | MAAMC DBM | July 1, 2007 |

Current and Prior Year Budgets

Current and Prior Year Budgets Maryland African American Museum Corporation (\$ in Thousands)

| | <u>General Fund</u> | <u>Special Fund</u> | <u>Federal Fund</u> | <u>Reimb. Fund</u> | <u>Total</u> |
|----------------------------------|--------------------------------|--------------------------------|--------------------------------|-------------------------------|---------------------|
| Fiscal 2006 | | | | | |
| Legislative Appropriation | \$3,025 | \$0 | \$0 | \$0 | \$3,025 |
| Deficiency Appropriation | 0 | 0 | 0 | 0 | 0 |
| Budget Amendments | 0 | 0 | 0 | 0 | 0 |
| Reversions and Cancellations | 0 | 0 | 0 | 0 | 0 |
| Actual Expenditures | \$3,025 | \$0 | \$0 | \$0 | \$3,025 |
| Fiscal 2007 | | | | | |
| Legislative Appropriation | \$2,714 | \$0 | \$0 | \$0 | \$2,714 |
| Budget Amendments | 0 | 0 | 0 | 0 | 0 |
| Working Appropriation | \$2,714 | \$0 | \$0 | \$0 | \$2,714 |

Note: Numbers may not sum to total due to rounding.

**Object/Fund Difference Report
Maryland African American Museum Corporation**

| <u>Object/Fund</u> | <u>FY06 Actual</u> | <u>FY07 Working Appropriation</u> | <u>FY08 Allowance</u> | <u>FY0 FY08 Amount Change</u> | <u>Percent Change</u> |
|---|------------------------|---|---------------------------|---------------------------------------|---------------------------|
| Objects | | | | | |
| 12 Grants, Subsidies, and Contributions | \$ 3,025,007 | \$ 2,714,000 | \$ 2,149,033 | -\$ 564,967 | -20.8% |
| Total Objects | \$ 3,025,007 | \$ 2,714,000 | \$ 2,149,033 | -\$ 564,967 | -20.8% |
| Funds | | | | | |
| 01 General Fund | \$ 3,025,007 | \$ 2,714,000 | \$ 2,149,033 | -\$ 564,967 | -20.8% |
| Total Funds | \$ 3,025,007 | \$ 2,714,000 | \$ 2,149,033 | -\$ 564,967 | -20.8% |

Note: The fiscal 2007 appropriation does not include deficiencies, and the fiscal 2008 allowance does not reflect contingent reductions.