

S50B
Maryland African American Museum Corporation

Operating Budget Data

(\$ in Thousands)

	<u>FY 05</u> <u>Actual</u>	<u>FY 06</u> <u>Working</u>	<u>FY 07</u> <u>Allowance</u>	<u>FY 06-07</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$2,165	\$3,025	\$2,714	-\$311	-10.3%
Total Funds	\$2,165	\$3,025	\$2,714	-\$311	-10.3%

- The fiscal 2007 allowance is 10.3% below the 2006 working appropriation. However, the fiscal 2006 amount includes a supplemental budget appropriation of \$650,000 to fund one-time costs associated with the grand opening of the museum. Not including the supplemental appropriation, the allowance increases 14.3% over fiscal 2006.

Analysis in Brief

Major Trends

Strategic Plan Identifies Challenges and Sets Goals for Visitor Attendance, Programs, and Finances: The Maryland African American Museum Corporation (MAAMC) strategic plan from fiscal 2003 serves as a five-year plan that identifies goals and objectives for the organization as well as potential challenges to success. The corporation is beginning to work on its next five-year plan.

Issues

Year One Attendance Goals Reduced by Half; Visitor Numbers Are Expected to Meet Goal and Revenues Are on Track to Meet 77% of Goal: From June 25, 2005 (the museum’s grand opening day) to January 31, 2006, the museum had 75,801 visitors and attendance-based revenues of \$269,365. Although the museum is on track to meet or mostly meet its revised goals for year one, the Department of Legislative Services (DLS) is concerned that the new goals represent only half of what was initially projected. **DLS recommends that MAAMC comment on expected visitor attendance through the end of fiscal 2006 and what is the implication for State funding if the museum does not reach its target attendance revenues. MAAMC also should comment on its expected second and third year visitor attendance.**

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

For further information contact: Monica L. Kearns

Phone: (410) 946-5530

Memorandum of Understanding Completed; Matching Funds Are Supporting 25% of Operating Costs: As requested by the General Assembly, MAAMC and the Department of Budget and Management completed a memorandum of understanding on use of the fiscal 2006 general fund grant. Particularly because of successful fundraising, MAAMC is meeting the 25% required match for private funds to support operating costs. **DLS recommends that MAAMC comment on the outlook for fundraising and whether visitor attendance and other revenue-generating activities are expected to increase its contribution toward covering operating costs.**

Recommended Actions

1. Add language that expresses intent for the fiscal 2008 general fund grant.
2. Adopt narrative that requests a memorandum of understanding on use of the general fund grant.

S50B
Maryland African American Museum Corporation

Operating Budget Analysis

Program Description

The Maryland African American Museum Corporation (MAAMC) was created by Chapters 428 and 429, Acts 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 Identifies Challenges and Sets Goals for Visitor Attendance, Programs, and Finances

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 it is beginning to work on its next five-year plan.

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 expects approximately 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.

S50B – Maryland African American Museum Corporation

- **Educational Programs:** The strategic plan identified a goal to implement teacher training and student curriculum with the Maryland State Department of Education (MSDE).
- **Finances:** The 2001 plan indicated that the corporation's financial goals include establishment of a \$6 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 million from membership fees, donations, gifts, and fundraising sponsorships; and development of a diverse revenue base from food sales, theatre events, festivals, foundation grants, traveling exhibits, tours, and public programs.

In June 2002, the museum received a \$5 million endowment grant for education activities payable at \$1 million per year from the Reginald F. Lewis Foundation. With this contribution, the foundation secured naming rights for the museum. Furthermore, the museum has received a \$1 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 and market share.
- **Other Programs:** The corporation aims to have a broad set of other financially successful programs including a museum store, theatre, café, and space that can be rented for events.

Governor's Proposed Budget

State support for MAAMC is budgeted as a general fund grant. As shown in **Exhibit 1**, the fiscal 2007 allowance is \$311,007 (10.3%) below the 2006 working appropriation. However, the fiscal 2006 amount includes not only an appropriation of \$2,375,007 but a supplemental appropriation of \$650,000 to fund one-time costs associated with the grand opening of the museum. Not including the supplemental appropriation, the allowance increases \$338,993 (14.3%) over fiscal 2006.

MAAMC is required to provide some matching funds from private sources to support operating costs (however, no match was required for the fiscal 2006 supplemental appropriation). Exhibit 1 shows that general funds covered an average of 60% of operating costs in fiscal 2004 and 2005. Private funds raised by MAAMC covered the remainder. The status of the corporation's private revenue match is further discussed in Issue 2.

Major increases in fiscal 2007 are for contractual services, and MAAMC reports that security services and exhibit preparation are the primary drivers of these increases. Major decreases are grouped in the "other" operating cost category; these decreases are mostly from the effect of the fiscal 2006 appropriation being raised by the \$650,000 supplemental appropriation for one-time expenses.

Exhibit 1
Maryland African American Museum Corporation
Expenditures and Revenues
Fiscal 2004 – 2007
(\$ in Thousands)

	<u>Actual</u> <u>FY 04</u>	<u>Actual</u> <u>FY 05</u>	<u>Working</u> <u>Appropriation</u> <u>FY 06</u>	<u>Allowance</u> <u>FY 07</u>	<u>Change</u> <u>FY 06 – 07</u>	<u>% Change</u>
Regular Salaries & Wages	\$621	\$1,039	\$1,675	\$1,629	-\$46	-2.7%
Contractual Employees	45	88	251	171	-81	-32.1%
Fuel and Utilities	39	267	400	454	54	13.5%
Contractual Services	967	1,611	559	1,043	484	86.7%
Other Operating Costs	159	473	931	322	-609	-65.4%
Total	\$1,831	\$3,477	\$3,817	\$3,619	-\$198	-5.2%
General Funds	\$1,075	\$2,165	\$3,025	\$2,714	-\$311	-10.3%
General Fund % of Total	58.7%	62.3%	79.3%	75.0%		
Privately Raised Revenue	\$757	\$1,312	\$792	\$905	\$113	14.3%

Notes: The General Assembly has expressed intent to fund 75% of the museum's operating costs through fiscal 2007, and 50% in 2008. Fiscal 2006 general funds include a \$650,000 supplemental appropriation for one-time expenses related to the grand opening of the museum.

Source: Maryland State Budget Books, fiscal 2006 and 2007

Issues

1. Year One Attendance Goals Reduced by Half; Visitor Numbers Are Expected to Meet Goal and Revenues Are on Track to Meet 77% of Goal

According to the fiscal 2003 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 reports that in January 2005, the year one goals were revised down to 130,000 visitors and \$600,000 in attendance-based revenues. Detail is shown in **Exhibit 2**.

At more than halfway through the first year, the museum is on track to fully meet the revised attendance goal; from June 25, 2005 (the museum’s grand opening day) to January 31, 2006, the museum had 75,801 visitors. Attendance-based revenues are on track to meet 77% of the revised goal, coming in at \$269,365 as of January 31, 2006. MAAMC hopes that visitor numbers in February 2006 will be higher than expected from the effects of black history month, further boosting its attendance figures.

Although the museum is on track to meet or mostly meet its revised goals, the Department of Legislative Services (DLS) is concerned that the revised goals represent only half of what was initially projected. Furthermore, the museum is in what is known as the “honeymoon period” of a new attraction’s opening, so visitor activity would be expected to be lower in subsequent years.

DLS recommends that MAAMC comment on expected visitor attendance through the end of fiscal 2006 and what is the implication for State funding if the museum does not reach its target attendance revenues. MAAMC also should comment on its expected second and third year visitor attendance.

Exhibit 2
Visitor Attendance and Revenues
Fiscal 2006

	Year One Attained Through Jan. 31, 2006	Year One Projected Attainment	Year One Goal (Per 2001 Plan)	% of Goal	Year One Goal (Per Revised Estimate Jan. 2005)	% of Goal
Attendance	75,801	129,945	261,000	50%	130,000	100%
Attendance-based Revenues	\$269,365	\$461,769	\$1,200,000	38%	\$600,000	77%

Notes: Attendance includes those who pay membership dues and have free entrance to the museum; 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. Fiscal 2006 data include June 25 (grand opening day) to June 30, 2005.

Source: Maryland African American Museum Corporation

2. Memorandum of Understanding Completed; Matching Funds Are Supporting 25% of Operating Costs

In the 2005 *Joint Chairmen's Report*, the General Assembly adopted budget bill narrative that requested MAAMC and the Department of Budget and Management (DBM) submit to the General Assembly a memorandum of understanding (MOU) outlining the terms and conditions of the fiscal 2006 grant. The memorandum was requested because there was a general understanding, reiterated by the budget bill narrative, that the State intends to fund 75% of the museum's operations through fiscal 2007 and 50% thereafter, but these terms are not specified in statute. DBM and MAAMC submitted the memorandum for fiscal 2006 as requested.

Fundraising Has Been Successful in Fiscal 2006

Among other provisions, the memorandum specifies that MAAMC is expected to raise 25% of its total operating budget, which equates to a 33.3% match on the fiscal 2006 general fund grant. For fiscal 2006, the memorandum specifies that general funds are provided to MAAMC in two disbursements, one on July 1, 2005, and one on January 1, 2006. If the corporation could not present evidence by the end of December 2005 that its match would be achieved, then DBM could reduce the second fiscal 2006 disbursement proportionately. As of January 31, 2006, MAAMC had raised 25% in private funds to serve as the match, particularly because fundraising has been successful in fiscal 2006.

Another provision of the memorandum requires that any unexpended or unencumbered general fund appropriation is reverted at the close of the fiscal year. In the budget bill narrative, the General Assembly expressed intent that a MOU be executed annually concerning use of the general fund grant.

DLS recommends that MAAMC comment on the outlook for fundraising and whether visitor attendance and other revenue-generating activities are expected to increase its contribution toward covering operating costs.

Recommended Actions

1. Add the following language:

. provided that it is the intent of the General Assembly that the fiscal 2008 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. Adopt the following narrative:

Memorandum of Understanding on Use of 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 2006. The committees request that a similar MOU be executed for fiscal 2007. The MOU should specify that the State intends to support no more than 75% of MAAMC's operating costs in fiscal 2007, which is consistent with previously expressed intent of the General Assembly.

Information Request	Authors	Due Date
MOU specifying use of the fiscal 2007	MAAMC DBM	July 1, 2006

Current and Prior Year Budgets

Current and Prior Year Budgets					
Maryland African American Museum Corporation					
(\$ in Thousands)					
	<u>General</u>	<u>Special</u>	<u>Federal</u>	<u>Reimb.</u>	<u>Total</u>
Fiscal 2005	Fund	Fund	Fund	Fund	
Legislative Appropriation	\$2,165	\$0	\$0	\$0	\$2,165
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	0	0	0	0	0
Reversions and Cancellations	0	0	0	0	0
Actual Expenditures	\$2,165	\$0	\$0	\$0	\$2,165
Fiscal 2006					
Legislative Appropriation	\$3,025	\$0	\$0	\$0	\$3,025
Budget Amendments	0	0	0	0	0
Working Appropriation	\$3,025	\$0	\$0	\$0	\$3,025

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

Audit Findings

Audit Period for Last Audit:	May 15, 2001 – May 31, 2004
Issue Date:	August 2004
Number of Findings:	2
Number of Repeat Findings:	1
% of Repeat Findings:	50%
Rating: (if applicable)	n/a

Finding 1: **MAAMC had not submitted its annual reports of operations and activities within the required timeframe.**

Finding 2: Independent verification was not always performed to ensure that recorded collections were deposited.

* Bold denotes item repeated in full or part from preceding audit report.

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

<u>Object/Fund</u>	<u>FY05 Actual</u>	<u>FY06 Working Appropriation</u>	<u>FY07 Allowance</u>	<u>FY06 - FY07 Amount Change</u>	<u>Percent Change</u>
Objects					
12 Grants, Subsidies, and Contributions	\$ 2,165,366	\$ 3,025,007	\$ 2,714,000	-\$ 311,007	-10.3%
Total Objects	\$ 2,165,366	\$ 3,025,007	\$ 2,714,000	-\$ 311,007	-10.3%
Funds					
01 General Fund	\$ 2,165,366	\$ 3,025,007	\$ 2,714,000	-\$ 311,007	-10.3%
Total Funds	\$ 2,165,366	\$ 3,025,007	\$ 2,714,000	-\$ 311,007	-10.3%

Note: The fiscal 2006 appropriation does not include deficiencies, and the fiscal 2007 allowance does not reflect contingent reductions.