

S50B
Maryland African American Museum Corporation

Operating Budget Data

(\$ in Thousands)

	<u>FY 07</u> <u>Actual</u>	<u>FY 08</u> <u>Working</u>	<u>FY 09</u> <u>Allowance</u>	<u>FY 08-09</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$2,714	\$2,149	\$2,187	\$38	1.8%
Total Funds	\$2,714	\$2,149	\$2,187	\$38	1.8%

- General funds increase slightly in fiscal 2009 to reflect State support of the museum's operating budget.

Analysis in Brief

Major Trends

Museum Releases Five-year Strategic Plan: The Maryland African American Museum Corporation (MAAMC) strategic plan from fiscal 2001 served as a five-year plan that identified goals and objectives for the organization as well as potential challenges to success. The corporation released its new five-year plan in spring 2007, which will guide MAAMC through 2012.

Issues

Visitor Attendance, Revenues, and Outlook for Private Funding: Lower than expected visitor attendance has been a concern for the museum since it opened in June 2005. An increase in attendance-based revenues is vital because the museum's general fund appropriation decreased, as planned, from 75% to 50% of the budget in fiscal 2008. As part of the plan to cover future expenditures, the museum's revenues from fundraising, membership dues, and admissions revenues must continue to increase. **The Department of Legislative Services recommends that MAAMC comment on how it will improve visitor attendance and museum membership in fiscal 2009 and the implication if the museum does not reach its target for attendance revenues.**

Investment and Management of Endowment Funds: The 2007 *Joint Chairmen's Report* requested a report from MAAMC indicating that the museum has selected an investment advisor, outlined a long-term investment plan, invested its endowment funds according to the long-term investment plan, and completed an endowment draw policy. The museum has drafted and approved a policy to guide

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

For further information contact: Flora M. Arabo

Phone: (410) 946-5530

S50B – Maryland African American Museum Corporation

the investment. **The agency should comment on the progress of this plan, including a timeline for investing the endowment according to the policy.**

Recommended Actions

1. Adopt narrative that requests a memorandum of understanding on use of the fiscal 2009 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 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

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's subsequent five-year plan was completed in 2007. The goals, objectives, and strategies laid out in the plan address operations, effective marketing, and financial management. Aspects include:

- **Integrity:** The museum is dedicated to operating with integrity in all aspects of service to customers and stakeholders. In support of this goal, the museum will strengthen its role as an educational destination, engage the community through active partnerships, improve the visitor experience through innovative exhibits, and provide career resources to the museum staff.
- **Marketing:** MAAMC intends to increase its visibility both in Baltimore and throughout the State by better understanding its customers and their expectations. New efforts to employ surveys and focus groups are intended to maximize the museum's brand recognition throughout the communities it serves and introduce new audiences to the museum.
- **Finances:** The plan includes objectives to increase museum revenues, including attendance-based revenues, and other forms of contributions to ensure the museum's future viability. MAAMC will also assist board members in effectively transitioning from a founding to an operating board.

Governor’s Proposed Budget

State support for MAAMC is budgeted as a general fund grant. As shown in **Exhibit 1**, the Governor’s fiscal 2009 allowance for the corporation is \$38,000 above the fiscal 2008 working appropriation. The allowance covers State support for 50% of MAAMC’s operating budget.

Exhibit 1
Maryland African American Museum Corporation
Expenditures and Revenues
Fiscal 2006-2009
(\$ in Thousands)

	<u>2006</u>	<u>2007</u>	<u>Working Appropriation 2008</u>	<u>Allowance 2009</u>	<u>Change 2008-09</u>	<u>% Change</u>
Regular Salaries and Wages	\$1,437	\$1,640	\$1,921	\$2,032	\$111	5.8%
Contractual Employees	342	244	165	165	-1	-0.3%
Fuel and Utilities	420	467	589	512	-77	-13.0%
Contractual Services	1,698	1,608	1,263	1,359	96	7.6%
Other Operating Costs	431	319	360	307	-54	-14.9%
Total	\$4,330	\$4,278	\$4,298	\$4,374	\$76	1.8%
General Funds	\$3,025	\$2,714	\$2,149	\$2,187	\$38	1.8%
Privately Raised Revenue	\$1,305	\$1,564	\$2,149	\$2,187	\$38	1.8%

Note: The General Assembly reduced funding of the museum’s operating costs from 75% to 50% in fiscal 2008. 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 2006-2009

MAAMC is required to provide matching funds from private sources to support operating costs. To cover expenditures in fiscal 2009, the corporation will have to increase its private revenues by 1.8%.

Major increases in fiscal 2009 are for salaries and wages and contractual services, as shown in Exhibit 1. Salaries and wages increase because of higher healthcare and retirement plan costs and salary increments. MAAMC reports that security services and exhibit preparation are the primary drivers of the contractual services increase.

Issues

1. Visitor Attendance, Revenues, and Outlook for Private Funding

Lower than expected visitor attendance has been a concern for the museum since it opened in June 2005. An increase in attendance-based revenues is vital because the museum's general fund appropriation decreased, as planned, from 75% to 50% of the budget in fiscal 2008. As part of the plan to cover future expenditures, the museum's revenues from fundraising, membership dues, and admissions must continue to increase.

Attendance figures include paying individuals, members, children under six, meeting space rental, and scheduled school group tours. Except for Title 1 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. In its second year, the museum met 88% of its attendance goal, bringing in 66,249 people, as shown in **Exhibit 2**. The attendance drop-off from fiscal 2006 to 2007 is slightly higher than an industry standard decline after a grand opening of roughly 25% to 35%.

Exhibit 2 Visitor Attendance and Revenues Fiscal 2006-2009

	Year One 2006 <u>Actual</u>	Year Two 2007 <u>Actual</u>	Year Three 2008 <u>Estimated</u>	Year Four 2009 <u>Estimated</u>
Goal	130,000	75,159	75,000	80,000
Attendance	104,532	66,249		
% of Goal Attained	80%	88%		
Goal	\$600,000	\$478,000	\$620,000	\$640,000
Attendance-based Revenues	\$701,645	\$451,101		
% of Goal Attained	117%	94%		

Note: 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 attendance-based revenue figures. Fiscal 2006 data include June 25 (grand opening day) to June 30, 2005

Source: Maryland African American Museum Corporation

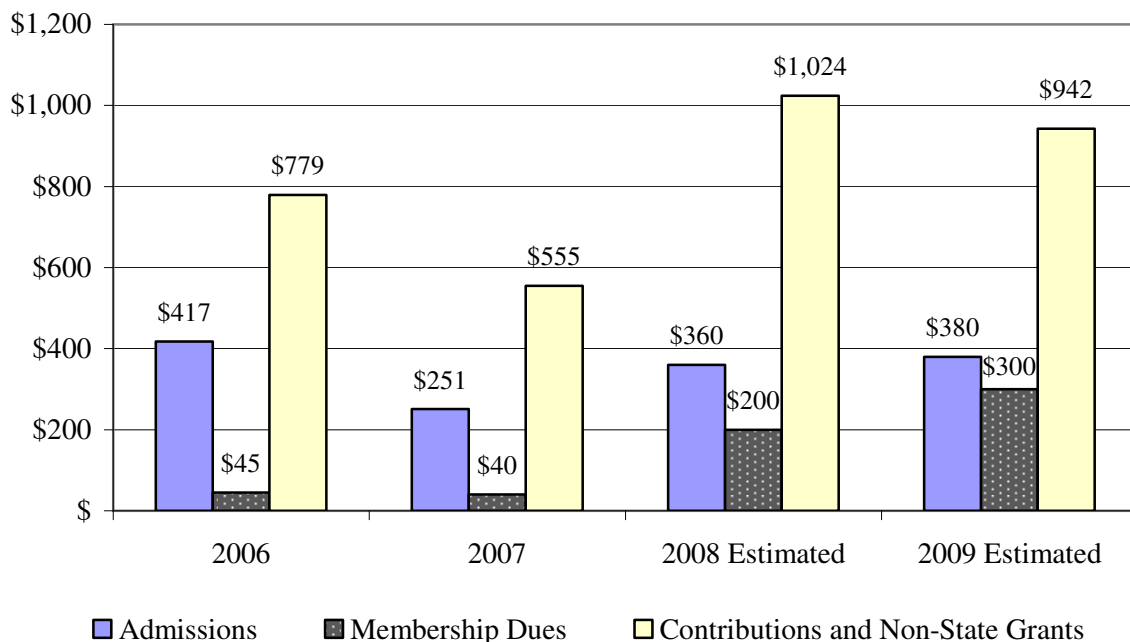
S50B – Maryland African American Museum Corporation

Similarly, MAAMC fell short of its goal for attendance-based revenues in fiscal 2007 by \$26,899, or 6%. In fiscal 2008, the museum’s third year, attendance and attendance-based revenues are expected to level off. Attendance-based revenues represent admissions, rental fees, and commissions. Although revenue from membership dues are related, because members have free entrance, they are accounted for separately.

In fiscal 2009, MAAMC expects to raise more than half of its total revenue from private sources. To cover fiscal 2009 expenditures, the museum plans to increase revenues from membership and admissions, as shown in **Exhibit 3**. Revenues from admissions will have to increase 6% from fiscal 2008, and membership dues are expected to grow 50%. Contributions and non-State grants are also significantly higher in fiscal 2008 and 2009 as the museum adjusts to the State’s decreased operating support. Private sources account for 74% of the museum’s anticipated fiscal 2009 revenues. The remainder will be funded through rental fees, commissions, and investment income.

The Department of Legislative Services recommends that MAAMC comment on how it will improve visitor attendance and museum membership in fiscal 2009, and the implication if the museum does not reach its target for attendance revenues.

Exhibit 3
Major Sources of Private Funds
Fiscal 2006-2009
(\$ in Thousands)



Source: Maryland African American Museum Corporation

2. Investment and Management of Endowment Funds

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 \$1.0 million per year, and as of June 2006, the whole amount was received. Another \$1.0 million 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. The 2007 *Joint Chairmen's Report* requested a report from MAAMC in response to the realization that the museum was keeping its endowment funds in low-earning investments.

MAAMC has drafted and approved a policy to guide the investment of its endowment funds. The objective is to provide income for the museum and maximize the value of the endowments. The policy sets targets for asset allocation, establishes withdrawal limits, and requires the investment manager to regularly communicate performance metrics. The museum board met in February 2008 and selected Brown Capital Management and Ariel Capital Management as its investment advisors.

The agency should comment on the progress of this plan, including a timeline for investing the endowment according to the policy.

Recommended Actions

1. 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 Memorandums of Understanding (MOU) governing use of MAAMC’s general fund grant for fiscal 2007 and 2008. The committees request that a similar MOU be executed for fiscal 2009. The MOU should specify that the State intends to support no more than 50% of MAAMC’s operating costs in fiscal 2009, which is consistent with previously expressed intent of the General Assembly.

Information Request	Authors	Due Date
MOU specifying use of the fiscal 2009 general fund grant	MAAMC DBM	July 1, 2008

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 2007					
Legislative Appropriation	\$2,714	\$0	\$0	\$0	\$2,714
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	0	0	0	0	0
Reversions and Cancellations	0	0	0	0	0
Actual Expenditures	\$2,714	\$0	\$0	\$0	\$2,714
Fiscal 2008					
Legislative Appropriation	\$2,149	\$0	\$0	\$0	\$2,149
Cost Containment	0	0	0	0	0
Budget Amendments	0	0	0	0	0
Working Appropriation	\$2,149	\$0	\$0	\$0	\$2,149

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

Audit Findings

MAAMC was audited by the Office of Legislative Audits (OLA) in May 2007. OLA did not disclose any significant deficiencies that warranted mention in the report. MAAMC has been operating in accordance with generally accepted accounting principles, and as no recommendations were made, a response was not required of the agency.

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

<u>Object/Fund</u>	<u>FY07 Actual</u>	<u>FY08 Working Appropriation</u>	<u>FY09 Allowance</u>	<u>FY08-FY09 Amount Change</u>	<u>Percent Change</u>
Objects					
12 Grants, Subsidies, and Contributions	\$ 2,714,000	\$ 2,149,033	\$ 2,187,000	\$ 37,967	1.8%
Total Objects	\$ 2,714,000	\$ 2,149,033	\$ 2,187,000	\$ 37,967	1.8%
Funds					
01 General Fund	\$ 2,714,000	\$ 2,149,033	\$ 2,187,000	\$ 37,967	1.8%
Total Funds	\$ 2,714,000	\$ 2,149,033	\$ 2,187,000	\$ 37,967	1.8%

Note: The fiscal 2008 appropriation does not include deficiencies.