

PricewaterhouseCoopers LLP

Charlotte Regional Visitors Authority

Analysis of Operational Issues

June 2011





June 24, 2011

Charlotte Regional Visitors Authority Board of Directors
501 South College Street
Charlotte, North Carolina 28202

Members of the Board,

PricewaterhouseCoopers LLP ("PwC") analyzed certain operational issues related to the Charlotte Regional Visitors Authority ("CRVA" or the "Authority"). This report ("Report") presents the findings relating to these analyses.

Our services were performed in accordance with our Engagement Letter dated April 12, 2011, and are subject to the terms and conditions included therein. Our services were performed in accordance with the Standards for Consulting Services established by the American Institute of Certified Public Accountants ("AICPA"). The procedures we performed did not constitute an examination or a review in accordance with generally accepted auditing standards or attestation standards. Accordingly, we provide no opinion, attestation or other form of assurance with respect to our work or the information upon which our work was based. We did not audit or otherwise verify the information supplied to us in connection with this engagement, from whatever source, except as may be specified in this Report or in our engagement letter.

Our work was limited to the specific procedures and analysis described herein and was based only on the information made available through June 3, 2011. Accordingly, changes in circumstances after this date could affect the findings outlined in this Report. This Report is intended solely for the Board of Directors of the CRVA for its internal use and benefit and is not intended to nor may it be relied upon by any other party ("Third Party"). PricewaterhouseCoopers accepts no liability or responsibility to any Third Party who gains access to this Report.

If any member of the Board has any questions regarding the contents of this Report, please feel free to contact Robert Canton at 813-218-2917 or via email at robert.canton@us.pwc.com

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Introduction

Consistent with our engagement letter dated May 2, 2011, PwC served as an independent advisor to the CRVA Board in support of the Board's own review and assessment of the CRVA's operating policies, procedures, organizational structure, and related matters. The Board requested and PwC provided limited consultation that included the following:

- Review of documents provided by the CRVA;
- Participation in meetings with CRVA Board members and staff;
- Participation in telephone conferences with CRVA Board members and staff;
- Providing convention and tourism industry insights based on our knowledge and experience; and
- Sharing insights from confidential discussions with other industry representatives regarding the challenges facing the CRVA.

Prior to our engagement, PwC and the Board discussed the need to undertake an independent in-depth review and analysis of the organization and the City of Charlotte's expectations in that regard. Based on what was described to PwC as financial and timing concerns, the Board decided to conduct a review internally, and requested that PwC provide support to the Board's efforts in the form of input and participation in discussions with the CRVA staff and Board members, based primarily on our subject-matter expertise. This arrangement was described in our engagement letter and in the CRVA Board's memo to Mayor Foxx and the Charlotte City Council. Although the CRVA's engagement of PwC was intended to be limited to information and insight provided through discussions, we have responded to the Mayor's and Council's request and gone above-and-beyond the previously agreed upon scope of our services, by developing this written report of our findings, which is consistent with what has been previously shared orally with members of the CRVA Board.

It is important to understand that this report is in no way intended to substitute for an in-depth analysis of the organization (described further under Issue IV), which could result in specific and detailed action steps for the Charlotte Regional Visitors Authority intended to complete its post-merger integration. Such an analysis could lead to changes in CRVA's governance, management, policies, procedures, structure, and other matters. The findings presented herein were based solely on our limited 80-hour review and consultations based on information provided by the CRVA and its representatives, our subject-matter expertise, and information/input provided to PwC, in confidence, by the management of other destination marketing organizations (DMOs) throughout the country. For example, this report provides historical and other information that is presented as factual (e.g. CIAA background, employee information, existing policies and procedures, etc.), which was neither audited nor in any way verified by PwC—other than through discussions with CRVA Board and Staff members. Consequently, the information presented herein may necessitate edits and refinements as a result of any information and discoveries that may result from a more in-depth review and analysis that more thoroughly explores the operations, procedures, policies, structure, and governance of the CRVA.

Key Issues Evaluated

As the face and voice of the destination, the CRVA must be strategic, and at times aggressive, in accomplishing its mission in pursuit of tourism business; however, as representative of Charlotte and its citizens, it must also be held to an extremely high standard when it comes to any and all of its business decisions and practices—particularly as a tax-funded organization in a challenging economic environment. The CRVA, like any organization that receives tax dollars, is and should be subject to public and media scrutiny; therefore, ethics that meet the highest standards, levels of accountability, and transparency are not only necessary but demanded by its stakeholders, which include not only the local travel and tourism industry, but also the citizens of Charlotte and CRVA’s customers.

The nature of PwC’s 80-hour consultation limits the range and depth of issues evaluated by our team; therefore, the Board requested that our analyses primarily focus on the CRVA’s CIAA arrangement involving the compensation of a CRVA employee. While the CIAA issue was PwC’s agreed-upon primary focus, we further agreed to provide assistance and insight in several other key areas based less on a review, but relying more on our subject-matter expertise and experience with other destinations. PwC’s four areas of focus, which are summarized in this report, were the following:

- I. Customer Contribution to CRVA Employee Compensation
- II. CEO Discretionary Fund / Expenses
- III. NASCAR Hall of Fame Attendance
- IV. CRVA Organizational Structure & Governance

I. Customer Contribution to CRVA Employee Compensation

Issue

Review the appropriateness of certain compensation payments made by the CRVA to one of its employees.

Analysis & Findings

This issue was raised given that the source of funds for the compensation payments was a client/customer of the CRVA—specifically, the Central Intercollegiate Athletic Association (CIAA). It is understood that, either in the process of securing the Central Intercollegiate Athletic Association’s selection of Charlotte as the host of its annual Men’s and Women’s Basketball Tournament, or shortly thereafter, discussions and negotiations between the CRVA and CIAA involved the need for additional tournament support in Charlotte. The arrangement reached between CRVA and CIAA involved the agreement to assign an individual staff member from the CRVA in this support role, rather than require the CIAA to hire an independent event coordinator on either a contract or permanent basis.

CRVA’s Senior Director of Events Marketing & Special Events was designated as the CIAA tournament coordinator (“Tournament Coordinator”). It is understood, based on discussions with CRVA management, that the Tournament Coordinator was expected to undertake this role in addition to the normal full-time activities related to the CRVA position of Senior Director of Events Marketing & Special Events. It is further understood that the responsibilities of the CIAA Tournament Coordinator required time and effort that were above-and-beyond the normal requirements related to Senior Director position. Therefore, it was agreed between the CIAA and CRVA that the CRVA would invoice the CIAA for these services and that the CRVA, upon receipt of payments from CIAA, would compensate the Tournament Coordinator for those services that were incremental to normal job activities and/or workload. The invoices ranged from \$15,000 in 2006 to \$30,000 in 2010. Compensation to the Tournament Director ranged from \$13,339 in 2006 to \$26,678 in 2010.

As a point of reference, in 2010, the Senior Director of Events Marketing & Special Events’ total compensation was approximately \$134,600, including the \$26,678 related to the CIAA, regular salary, car allowance, and performance bonus. This total compensation

falls within the range of the seven staff that share the “Senior Director” title including Sales, Communications, Marketing & Visual Communications, Facility Services, Finance & Administration, and Human Resources & Strategic Planning. The total compensation range in 2010 for individuals holding the Senior Director title was \$61,058 to \$156,282. Two of the other six Senior Directors' total compensation was greater than the total paid to the Senior Director of Events Marketing & Special Events, including the tournament coordinator compensation.

Based on information provided through discussions with others in the industry, including other destinations, it is understood that it is not uncommon for major events, including sports tournaments, to engage a local event coordinator to assist with the events logistics, operational relationships and other related activities. Such coordinators can either be in the form of a direct full- or part-time employee of the event, an independent contractor that provides such services to events, or an employee of the host organization (convention & visitors bureau, sports commission, host committee, etc.). For example, rather than contracting with a outside agency or hiring additional sales staff, a major conference sports tournament might negotiate to enlist the services of one or more members of the host sports commission to assist in selling sponsorships to local companies. In addition to the potential economic benefits of not having to hire their own staff, the event could benefit from the local sports commission employee’s existing relationships within the local business community. In this example, it would be common for the conference (event) to pay for that portion of the sports commission employee’s compensation that related to the event's sponsorship sales.

Our findings are as follows:

1. Because the Tournament Coordinator’s CIAA-related responsibilities reportedly involved time, responsibilities, and expertise that were beyond those typically associated with event coordinator duties, the process of the CRVA billing the event (CIAA) and subsequently compensating the employee for these additional duties does not appear to be unlike the result of negotiations where other events in the U.S. pay for event-related services that are above-and-beyond the normal event coordinator role.
2. Even with the CIAA-related compensation, the Senior Director of Events Marketing & Special Events' total compensation was within the range of other Senior Directors.

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3. Contracting with the CIAA in a more transparent and clear way for the services provided by the Senior Director would have been more appropriate. While no improprieties are evident as a result of our limited review, a more formal process could have been followed and should be implemented by the CEO and Board so that this situation does not recur.
 4. To avoid confusion or misunderstanding with regard to the fact that the CIAA-related compensation was for services in addition to those that are normal for the position, it is recommended that future payments be more clearly documented and tied to the specific responsibilities/services provided to the event and that any such payments are understood to be and treated as payment for services, rather than as an employee "bonus" or "incentive" compensation. In other words, were the CIAA to contract with an outside agency for tournament coordinator services, the contract with such an agency would likely delineate the services requested and related payments for those services. The development of a clear description of services provided and covered by the CIAA (or other organization in the future) payments will help clarify the arrangement.

II. CEO Discretionary Fund / Expenses

Issue

What, if any, policies and/or procedures should be implemented with regard to CRVA management's discretionary expenditures?

Analysis & Findings

Destination marketing organizations such as CRVA operate in a complex, challenging, and highly competitive environment. The process of soliciting convention and other tourism business for Charlotte may, at times, call for marketing/sales/promotional related discretionary spending on items such as entertainment, travel, alcoholic beverages, tickets to sporting events, gifts, etc. for or related to existing and/or prospective customers (meeting planners, corporate or association executives, etc.).

1. While the CRVA has a travel & entertainment policy in place, it could be improved and clarified to more thoroughly addresses discretionary spending. It is therefore recommended that the CRVA Board and CEO immediately begin the process of reviewing the existing policy, ensuring that it appropriately addresses discretionary spending and reimbursement of expenses incurred while conducting CRVA business (i.e. travel and entertainment expenses), including a description of types of levels of expenses requiring CEO and/or Board approval.
2. Care should be given to ensure the Board does not create a situation where it is micro-managing the organization to the point that it puts the destination at a competitive disadvantage relative to other destinations. Rather, the CEO and other key staff should have a clear understanding of items or amounts that are considered extraordinary in nature and/or cost and should either be prohibited or restricted (i.e. requiring Board approval or subject to dollar limits).
3. The following list is not intended to suggest that any particular item should either be prohibited or require Board approval (though either could be applicable); rather, they are items that we suggest be addressed in the policy in terms of their acceptability, levels (dollar amounts/thresholds requiring CEO [for staff] or Board [for CEO] approval), etc.

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- a. Travel (reimbursement for family members, air travel above coach class, etc.)
 - b. Gifts
 - c. Event tickets
 - d. Event luxury suites and other preferential seating
 - e. Meals
 - f. Entertainment
 - g. Alcohol
 - h. Parties
 - i. Other items as determined by the CRVA Board of Directors

The following are examples of specific items covered by expense/discretionary policies of other destination marketing/management organizations. The intent of these examples is simply to provide the basis for further review and analysis that may lead to edits of the existing policy or the development of new/expanded policies, restrictions, prohibitions, amounts, etc., which may be enacted by the CRVA and its Board. The examples provided are for planning purposes only and are not intended to suggest that CRVA Board or staff members have incurred or expensed any such items.

- Entertainment expenses only authorized when meeting with tourist industry representatives including travel writers, meeting planners, etc.
- Allowable entertainment guidelines for meals, such as maximum per-person amounts for breakfast, lunch, and dinner. Amounts above those guidelines require prior CEO (in the case of staff) or Board (in the case of CEO) approval.
- Travel for staff will be pre-approved by the CEO. Travel for the CEO will be pre-approved by the Board (or Board Chair, Executive Committee, etc.).
- Prohibitions on reimbursement for expenses related to adult entertainment.
- Limitations/prohibitions related to “extravagant” meals and alcohol related to entertaining staff without prior Board approval. Potentially prohibiting public funds for alcohol by CRVA staff/management, except for existing or prospective client functions.

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- Maximum expenditures on gifts to business associates or clients (\$25, \$50, etc.) without prior Board approval.
 - Policies describing specific expenses that, although allowable under the travel and entertainment policies, will not be reimbursed using tax funds. For example, client gifts, alcohol, costs of Board meetings/retreats, committee meetings, tickets to events, golf, galas, parties, etc.

III. NASCAR Hall of Fame Attendance

Issue

Following the presentation of our initial oral findings to the Board, based on prior discussions and with the balance of time remaining in our consulting assignment, we explored the issue of the NASCAR Hall of Fame not having achieved its pre-opening estimates for attendance.

Analysis & Findings

According to our discussions with CRVA representatives, CRVA officials referenced first-year attendance projections of approximately 800,000 during the time the NASCAR Hall of Fame was competing with other destinations to host the venue. Our limited analyses have not identified due diligence or studies supporting these projections. Rather, we understand from our discussions with CRVA representatives that earlier, more modest attendance projections were revised as the competition between Charlotte, Atlanta, and Daytona intensified for the Hall of Fame. It is not clear what, if any, due diligence was conducted in support of these upward revisions.

Clearly the national and regional economy declined from the time the NASCAR Hall of Fame bids were being prepared to the end of the venue's first year of operation. It is possible such declines could have played a primary role in impacting actual attendance; however, the potential lack of sufficient due diligence supporting the projections related to this significant tax-supported project should have been clearly identified by the CRVA CEO and Board of Directors as part of their management and oversight roles. It is not clear whether or not such identification was made in Board or other meetings--simply that there is no clear trail of due diligence supporting the increased figures.

It is important to avoid similar mistakes in future projections and budgeting related to the NASCAR Hall of Fame. In other words, a thorough, in-depth due diligence effort should be conducted and continuously monitored/updated, in order that the Hall of Fame stakeholders have more clear expectations surrounding the performance of the venue and the degree to which it impacts the CRVA and City of Charlotte.

It is suggested, however, that care be given regarding future projections--particularly any future reference to "under-performance" related to the number of visitors. This can, itself, have a negative impact on attendance. In other words, it is our experience that public reports and media coverage focusing on an attraction's attendance relative to projections that were unreasonably high--can lead some potential visitors to unfairly conclude a negative quality/experience perception of what is instead a high-quality family attraction and asset for the City of Charlotte.

IV. CRVA Organizational Structure & Governance

Issue

Is CRVA's current organizational structure appropriate and efficient/effective given the responsibilities of the organization and the assets under management?

Analysis & Findings

The CRVA was established in 2004 as a result of a merger of the Auditorium Coliseum Convention Center Authority and the convention & visitors bureau (Visit Charlotte). The organization serves as the region's destination marketing organization and provides management/oversight of several publicly-owned venues including the Charlotte Convention Center, Bojangles' Coliseum, NASCAR Hall of Fame, Ovens Auditorium, and Time Warner Cable Arena (back-of-house support at Time Warner Cable Arena).

Based on discussions with CRVA management, although the two entities were merged seven years ago, the integration that typically accompanies a merger of two organizations has not fully taken place. For example, there does not appear to have been a process to determine whether redundancies exist following the merger that could warrant the phasing out of certain positions or departments, or if the resulting organization's new responsibilities/venues warranted the creation of new positions or departments. This lack of integration could result in an inefficient and ineffective use of public funds.

It should be noted that management indicated that an integration plan—while several years late—has been developed and was perhaps even in the early process of being implemented; however, the CIAA questions/issues that were identified earlier this year reportedly postponed the implementation process.

It is recommended that a full review and analysis of the CRVA organizational and governance structure be undertaken. This would encompass an evaluation of the appropriate levels of Board oversight of the CEO and the CEO oversight of individual departments including Visit Charlotte, the Convention Center, Time Warner Cable Arena, Bojangles' Coliseum, and the NASCAR Hall of Fame. The goal of this review should be to identify areas where the CRVA could be better organized, more efficiently structured, reporting

lines clarified, all with a goal of realizing a more efficient and effective CRVA. Other areas of focus during such an analysis/review could include:

- Evaluation and editing of existing policies and procedures within the CRVA;
- Determination of most appropriate departmental performance measures/metrics;
- Determination of most appropriate staff-level performance metrics, particularly as it relates to performance-based compensation;
- Evaluation of the roles and responsibilities of CRVA Board members, clearly delineating Board-level decisions and oversight roles from those of the CEO and other senior management;
- Determining what, if any, changes to the organization and reporting structure should be implemented; and
- Determining the type and detail required regarding regular reporting of CRVA activities and performance (return on investment, economic development, etc.) to the City of Charlotte and Mecklenburg County.

There is no single correct way to address the organizational structure or governance of a destination marketing/management organization. However, Charlotte's destination marketing organization shares a unique structure with other DMOs, whereby a single entity controls both destination marketing and venue management. This type of single-entity approach can and should be a model for the industry, if it is managed effectively and efficiently. The sharing of staff, elimination of redundancies, and the ability to work towards common goals are areas that are often a challenge to destinations with separate organizations (for example, one organization operating the convention center and a separate organization marketing the destination). In other words, it is difficult to sell a product (convention center) that you have little direct control over (dates, rental rates, booking policies, etc.); however, Charlotte's single-entity approach should avoid any such challenges. The result of effectively completing the merger and integration of the Charlotte Auditorium Coliseum Convention Center Authority, Visit Charlotte, and the NASCAR Hall of Fame has the potential to be a great example both of efficient and effective destination management and of an agency successfully leading a region's economic development through tourism.

With all the clear benefits of a single-entity DMO, one of the challenges is the potential lack of effective checks and balances naturally present with separate organizations, which do not naturally exist within a single-entity structure. Therefore, it is perhaps even more important that effective governance and oversight be in place to help ensure taxpayer funds and assets are properly managed.

The following is a summary of our observations regarding the overall organization and its governance:

1. Delayed decisions and actions related to post-merger integration of the various organizations that comprise the CRVA including headcounts, salaries, and other such factors potentially resulted in additional costs or lack of organizational clarity. A limited review of CRVA departments and salaries of its employees suggest that, at minimum, a review and analysis of compensation levels and redundancy or inefficiency/ineffectiveness of positions and departments needs to be conducted, with possible changes implemented.
2. As evident throughout this report, the CRVA is an organization charged with managing the expenditure of significant tax dollars and public assets--a responsibility that subjects it to an expectation to perform at a higher standard in its role of managing and promoting the destination. This charge demands significant public-sector trust, accountability, and transparency—the perceived insufficiencies of which have resulted in a crisis of credibility for the CRVA.
3. Examples presented in this report, including NASCAR Hall of Fame attendance projections based on limited due diligence, lack of transparency with the CIAA compensation matter, lack of adequately documented discretionary spending policies, and lack of post-merger implementation, may be symptomatic of a CRVA and CRVA Board of Directors experiencing growing pains and in need of clarity in the definition and understanding of its mission, roles, responsibilities, and policies/procedures in leading Charlotte’s economic development efforts through tourism.