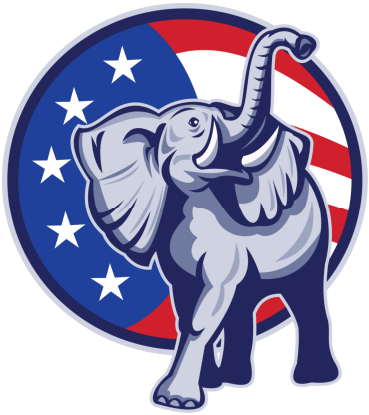
House Republican Policy Group



The Rhode Island Convention Center Authority Report

May 27, 2015

The Republican Minority Caucus is convening a Policy Group to study various spending issues in Rhode Island government. Rhode Island's budget, having swollen by $1 billion, over the past two years, now stands at $8.6 billion. The level of spending places us as the 5th highest taxed state in the country and creates a difficult burden on individual tax payers and our business climate, alike. This is especially true, when the dollars taken by government are wasted or abused.

The goals of the group are as follows:

- To research spending issues and reveal wasteful practices.
- To encourage the state's management to operate effectively and efficiently
- To encourage reform in areas where resources are currently being used poorly or fraudulently
- To encourage a stronger economic environment and reduce taxes for our beleaguered taxpayers.
- To increase voter knowledge of important state issues and promote civic participation

The following report is the first report issued by the Republican Policy Group. This report centers upon on taxpayer cost, management practices, and business inefficiencies of the Convention Center Authority.

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Preamble

Over the last 3 months, Representatives of the House Republican Office created a policy group to research various state issues with the intent to increase government efficiency, reduce waste, and enhance taxpayer value. During these months, Republican members met on a biweekly basis to discuss findings and direct further inquiry. After a series of informational requests, meetings with various stakeholders, and document searches, the Republican Policy Group has compiled this preliminary report.

This report is broken into three parts. The first section will depict the history of the Convention Center. The second section will delineate problems and issues the Republican Policy Group uncovered. The final section will illustrate the recommendations of the Republican Policy Group.

We began our study with the question: What is our State trying to achieve with its investment in the RI Convention Center Authority? If, as its mission statement depicts, the goal is to create the maximum amount of economic stimulus at the lowest possible public cost, then we conclude it is not fulfilling that objective.

It is our hope that this report will begin an open, transparent restructuring of the Authority so that it may contribute to our citizens' well-being at a much higher level. The Convention Center Authority can and must do better. Every additional dollar earned or saved reduces the taxpayer subsidy. Savings can be used to fund other much needed programs in our state or be given back to Rhode Islanders through lower fees or tax rates. Enhancing the efficiency of the Convention Center Authority has the potential to improve the lives of many Rhode Islanders.

Introduction

In 1987, the General Assembly created the RI Convention Center Authority. This quasi-public entity was tasked with building and managing the proposed new convention center. To help the Authority in that task, they were given the power to issue and sell bonds to private investors.

Before construction began, it was necessary for bonds to be marketed and sold. In the opinion of financing experts and in order to have a successful bond offering, it was necessary to acquire the financial support of Rhode Island taxpayers. Bond counsel James Skeffington of Edwards and Angell was the lead attorney on the deal. With his involvement, a lease/sublease arrangement was devised.

This agreement, signed by Governor Bruce Sundlun with the Convention Center Authority obligates the state's taxpayers to pay all debt obligations, as well as any and all operating and maintenance costs that the Convention Center may require. Furthermore, the State is not permitted to alter the lease agreement without the permission of the Convention Center Authority. In effect, without their knowledge or approval, State taxpayers became the ATM for the Convention Center Authority.

At the time, proponents of the project asserted that the Convention Center would 'pay its way.' In fact, the chairman of the newly created Board of Directors boldly pronounced, "taxpayers will not have to pay one dime." Unfortunately, these hollow words are linked to the hundreds of millions of taxpayer dollars, which have been spent to date. State taxpayers have been paying ever since the Authority's creation with projected total costs in excess of three quarters of a billion dollars.

In addition to this debt burden, taxpayers have funded operational costs more frequently over the last decade. Management practices and procedures have failed to contain internal costs, thereby, straining already tight budgets. As the lease agreement stipulates, Rhode Island taxpayers must pay for any operational shortages of the Convention Center Authority. With these favorable lease provisions, managers bear little to no repercussions for low revenues, missed profit targets, or mismanagement at the Authority. To the contrary, it appears that the Taxpayer is the only one held responsible for the failures the Convention Center Authority.

Part 1:

History

The Convention Center Authority was created by the General Assembly in 1987 and provided with the legal authority to build and manage a convention center and to bond or issue debt. The enabling legislation was later amended to include the operation of a hotel.

Leasing Agreement

The State of Rhode Island entered into a lease agreement with the Convention Center Authority in November of 1991. This agreement would be the defining document that would siphon tax money for decades to come. Under the agreement, the State would "lease" the Convention Center and any related property or buildings from the Convention Center Authority. According to the agreement, the State shall pay an amount equal to (1) all debt services with respect to all outstanding bonds, (2) payment of operations and maintenance expenses, replenishment of the mandatory debt service reserve fund, and (3) any additional payments needed to cover other obligations, charges, or expenses payable by the Authority. Moreover, the State contractually agreed to convey sole management rights of the buildings and operations to the Convention Center Authority.

While construction of the facilities expanded in both size and cost, the leasing agreement stipulated that "alterations to the project are at the discretion of the Authority and shall be promptly paid by the State as additional rent." This leasing agreement removed many rights of the state, while insulating the Authority from liability. It is with this backdrop that Rhode Islanders must we wary of all future leasing agreements.

Economic Impact Studies

Economic impact reports attempt to predict future outcomes through modeling. Numerous assumptions must be made during this process. Assumptions can be altered depending on the desired outcome.

The call for a Rhode Island Convention Center began in 1986. At that time, several Economic Impact Studies were done. One study, commissioned by the Rhode Island Foundation, concluded that a convention center would require large public subsidies and would be of 'dubious value' to the economy. It was followed by another, which supported proponents of the project. It predicted a favorable tax revenue-to-debt cost ratio of 1.54. Simply stated, it guessed that for every dollar of cost, the state and city would realize $1.54 of additional tax revenue.

Additionally, the report predicted an annual net benefit-to-cost ratio of 23.8. For every dollar of cost, $23.8 dollars would be generated. If these rosy projections were correlated to Fiscal Year 2016 total-taxpayer-costs of $25.61 million, the Convention Center Authority would need to generate roughly $609.5 million annually in economic activity. The Authority's current economic report depicts a fraction of that value.

Original Design

Originally, the building was designed as a 45,000 square foot exhibition hall which would cost approximately $100 million. However, the size quickly grew to 100,000 square feet at a cost in excess of $200 million. Accordingly, another 'rosy' study was produced. It illustrated the benefits of doubling the size of this venue. In that report, the cost to double the size of the facility is a mere $16 million. However, profits increase by 20% and net taxes by 75%. Surprisingly, the building's occupancy utilization would increase by 35%, simply by doubling the exhibition hall.

At the time, the methodology of the report wasn't questioned as it seemed to illustrate the desired outcome. However, it should be noted that the company which created this report also was paid to conduct the annual audited report of the Convention Center Authority six months later.

Building Costs

News articles at the time referred to Rhode Island's Convention Center as the "the Rolls Royce of Convention Centers." The Rhode Island Convention center cost $35 more per square foot than the Philadelphia Convention center and $15 more per square foot than the Alabama Center. With hundreds of thousands of construction square footage, these higher costs add up quickly. Obviously, this contributed to the exploding cost.

Although these events occurred 24 years ago, they can serve as a cautionary guide for construction projects today.

The Republican Policy Group investigation has uncovered irregularities in the cost of the land, as well as the *request for proposal* and contract process.

Land Acquisition

The 4 parcels of land totaled 7.7 acres. The Convention Center Authority ultimately paid $31.8 million for the land; more than $4 million more than the Authority's own internal appraisers recommended. For example, parcel three cost $6.6 million at a cost of $110.83 per square foot. The Authority's appraiser described a purchase price of $104.16 per square foot as "unprecedented," Despite his assessment; the CCA eventually paid $400,000 more for this land than the "unprecedented" purchase price. No reason was given for the elevated purchase prices.

Request For Proposals

In 1993, the Auditor General studied the finances of the Convention Center Authority and produced a report. He found several troubling operational and financial issues that he considered serious discrepancies.

A contract for marketing services was awarded for $3,300 per month, not to exceed $39,000. After the contract was awarded, the Board approved a new marketing

plan at a cost not to exceed $750,000 over a 16 month period. This dramatic increase was not accompanied by a new Request for Proposal. Ultimately, the Convention Center paid $857,000 in 15 months of marketing services. Not only did the Authority pay more than the allowable sum of the contract, but also the Authority paid that excess inside of the 16 month timeframe. We have been unable to establish the name of the vendor.

Based on environmental reports from 1988, the building site was determined to contain 600 tons of hazardous material. Accordingly, an RFP for its removal was issued and a contract awarded for $39,000. After 12 additional change orders approved by the Board, a total of $3,914,000 was paid to remove 63,617 tons of soil.

As in the case of the marketing plan, the change orders were issued without requesting a new RFP. It seems that no one in charge challenged the spike in costs nor the substantial change in tonnage of hazardous waste as reported in the environmental reports. In light of this high cost of hazardous soil removal, we question why the center paid over market prices for the land. Unfortunately, we have not discovered the names of the original vendors/principals.

There are additional examples of poor management oversight and a flawed request for proposals process. An engineering contract, where no formal contract was ever executed, grew from $23,000 to $1.2 million. The Auditor General found evidence that the "consulting engineer conducted considerable water and soil analyses and consulting services not identified in the initial Request for Proposal." Yet, the company was paid for this off-the-record work.

Moreover, there were numerous types of missing documentation associated with the construction project. Such documents included "public notices and dates published, bid proposals, dates and content of any bidders conferences, bid bonds, and notifications of awards." In addition to the missing documentation, the Authority's personnel were "unable to describe how the detailed charges on the vendor's bills could be verified." Even though proper verification was not conducted, vendors were still paid.

It is obvious these cost overruns added to taxpayer burden. Management failed to provide complete and detailed RFPs, fiscally responsible guidance, and supervision. This failure allowed the price tag for the project to dramatically escalate, all without the knowledge or approval of taxpayers.

Part 2:

Lack of Oversight

Without the need to internally balance costs and revenues, management can lose focus on efficient and financially responsible practices. Guaranteed taxpayer funding allows them to avoid employing challenging least-cost-procurement strategies and thrifty management practices.

Management

Originally, the RI Convention Center Authority consisted of three buildings: the Exhibition Hall, the hotel and the parking garage. Management of the hotel was subcontracted to the hotel chain. SMG, a private management company, was hired to operate the parking garage and an in-house management team was hired to run the exhibition hall. The Authority's Board and personnel provided oversight and guidance. This created three layers of management.

In 2004, the Westin was sold for $95.5 million. This money was used to retire debt. At the same time, the RICCA bought the civic center from the City of Providence for $28.5 million and spent an additional $64 million for renovations. In addition, the Veterans Memorial Auditorium was acquired in 2008 and $15.5 million was provided by state taxpayers for renovations. During this period of acquisition, each facility maintained its separate in-house management team and continued to use the private vendor to operate the facilities. This created duplication and needless expense.

Recently, the Authority restructured. The in-house management teams for each building were hired by the private vendor. The employee has now hired the employer. This appears to create a conflict. Republican Policy Group members posed a number of questions: Can the vendor adequately discipline the management team or fire them for poor performance? Who is in charge? Who decides pay and working conditions? Is the private management team able to streamline and remove duplicative positions? To what contractual obligations does this arrangement tie the Authority and, by extension taxpayers?

We can discern no benefit from this restructuring, except to remove the redundant layer of personnel from view and make investigation of policies and practices more difficult and opaque.

Private Vendors

As explained in the previous section, each facility in the RICCA is operated by a private vendor. Their responsibility is to hire and supervise general staff, ticket sales, cleaning and maintenance, and security services. In addition, vendors provide marketing and event procurement services using their national network. For these services, they are paid a fee. For SMG, this base fee increased from $331,000 in 2006 to $483,000 by 2014. PFM, the management company for the

Veterans Memorial Auditorium, began its contract in 2008 at 175,000. As of 2014, PFM receives $250,000 for services rendered.

In addition to the base fee, the management companies are also paid incentive fees. Incentives can be good contractual techniques used to align the profit motive of the Convention Center Authority with that of the management company. However, incentives payments should reward the management company for growing the business and increasing profits.

A contract signed with SMG and the Rhode Island Convention Center Authority dated December 1, 2010 outlines the quantitative incentive programs for the Convention Center. There are three specific areas where SMG has the potential to earn 15% of the following relevant benchmarks: Convention Center Operations, Food & Beverage, and Parking Operations.
Specifically, SMG may earn 15% of "adjusted operating revenues solely from Convention Center operations." This incentive triggers at $4.1 million in operating revenues. Using the previous closing year as a gauge, Convention Center operations were in excess of the trigger amount. Thus, SMG only needed to maintain current sales to be awarded an incentive payment the following year.

Similarly, SMG received 15% of gross revenues in excess of $4 million for "food and beverage services." The 2009 closing gross revenue totaled $5.166 million. Without expanding food and beverage services, SMG would be entitled to receive $170,000 in additional 'incentive' payments merely for holding sales constant to the previous year.

The final incentive payment centered upon parking operations. The trigger revenue value for the parking operations was $3.8 million but required that the "URI and other negotiated contracts" be removed from the revenue analysis. Parking operations, excluding the URI contract, totaled in excess of $3.8 million. Again, this incentive payment trigger offered money to SMG with no added benefit to the profits of the Convention Center Authority.

Total incentive payments paid to SMG in fiscal year 2010 totaled $341,228. Contrary to the motive behind incentives, these payments contributed to costs without increasing revenue. In fact, they added to deficits that became the responsibility of taxpayers.

We feel it is a questionable practice to grant generous incentive payments when the facilities are experiencing declining attendance numbers and are running a deficit. It should be noted that the contract with SMG has been amended since 2010 to cap incentive payments. However, a reduction in incentive payments has been slightly offset by an increase in the base management payment. The practice for incentives should be growth, not simply maintenance.

Facility Utilization

The facilities provide meeting space, host conventions, public exhibitions, concerts, and sporting events. Similar to other industries, there is opportunity cost associated with vacancy rates. Each day that passes 'un-booked' represents a loss of revenue to the facility that can never be regained.

An analysis of the Dunkin Donuts Center reveals that monthly fixed salaries amount to roughly $400,000. Profitable venues and high utilization rates offset these costs, thus reducing the necessary taxpayer subsidy at the end of the year. Unfortunately since January of 2012, the Dunkin Donuts Center averages less than 12 events per month. As a result, the Dunkin Donuts Center is only utilized 40% of the month.

In some months during the slow summer-season, the facility is not used at all. The last 9 summer months, June 2012 through August 2014, have totaled 40 events, or 4.4 events per month. Out of 270 days, less than 15% were booked.

The Dunkin Donuts fixed salary expenses for these months is estimated to exceed $2.7 million, while net income offsetting this expense totaled $544,000. This underutilization represents a substantial lost opportunity cost not only to the state, but also to taxpayers.
While the Veterans Memorial Auditorium has increased its number of events and event days from 2009, the VMA still ended fiscal year 2014 with a deficit. In 2014, 62 events covered 131 days. Assuming no multiple concert days, VMA utilization is only 36%, lower than the Dunkin Donuts Center.

According to the lease agreement with the State of Rhode Island, the Department of Administration and the VMA, the Department pays $250,000 annually for utilities and routine maintenance of the Auditorium. Roughly 33% of their average annual budget from 2009 to 2014 is subsidized by taxpayers through the Department of Administration's budget. Even with this extra appropriation, the facility struggles to break even each year. Higher facility utilization rates could increase profit potential and lower the need for taxpayer subsidies.

The Convention Center hosted 271 events for 778 event days with attendance of 318,000 people in 2006. By 2014, all of these metrics have declined; the number of events decreased to 254 for 595 event days with attendance down 9,000 people. Even though these performance benchmarks decreased, the Convention Center Authority requested 4% pay increases in the FY 2015 budget proposal.

Employees

Our investigation has included a study of current staffing, pay and benefits. All three employee components have experienced increased costs despite level to falling facility utilization and deficits.

Full-time employees receive healthcare coverage with 85% of SMG staff enrolling in the benefit package. F&B Local 217 now maintains the BC/BS plan of which SMG

contributes 90% of the premium cost. Financial documentation from the Convention Center Authority illustrates a $32,392 cost for a family BC/BS plan with an employee insurance co-share of $2,383. Dental, life, and long term disability insurance is paid through the Convention Center Authority's budget at a cost of $5,000 annually for each full time employee.

In addition, 11 executive level positions receive free parking and an automobile allowance. While not typical, car allowances are sometimes provided if employees are expected to visit facilities off-site. Since all three buildings are within an easy walk, we question the need for automobile allowances which costs in excess of $95,000.

Although the facility is vacant 60% of the year and the number of events has not increased, employees have been given annual pay increases. The revised 2014 budget originally requested that management receive a 4% raise. Additionally, employees enjoy a generous, by private industry standards, 9% matching contribution in the 457 pension plan.

The Convention Center Authority employs 93 fulltime employees and 229 part time employees. The total salary expense is $5,914,844. The Dunkin Donuts Center employs 40 full-time and 669 part-time employees at a total expense of $3,784,886. A list of the full-time positions indicates duplication. We were not supplied with a list of employees at the Veterans Memorial Auditorium.

However, this partial list at these two venues includes:

- 9 Employees in the Finance Department
- 9 in Sales/Marketing Department, in addition to $500,000 annual payment made to the Providence Visitors Bureau
- 8 in the Box Office, despite on-line ticket sales
- 5 in the Event Services Department including a director, 3 managers and a coordinator
- 6 electricians, 6 engineers, 6 HVAC technicians and 5 operations foreman to oversee 15 maintenance staff, all overseen by 8 senior level operations personnel. In addition, there is a full-time plumber paid over $100,000 plus benefits annually.
- 15 Security employees, that are supplemented by police and fire details during events
- 6 chefs and 6 cooks, 4 banquet and catering sales managers, 6 dishwashers, who earn between $23,000 and $29,000 plus benefits, and 6 banquet servers paid between $50,000 and $81,000 plus benefits per year.

The number of full-time staffing positions appears to be inflated when juxtaposed against the under-utilization of the facilities. At this time, we were unable to confirm if personnel are shared among the 3 facilities. However, given the fact that the venues are often empty, this could be an area in which to achieve savings.

Additionally, the payments to wait staff, cooking staff and dishwashers and security personnel appear to be well above typical private sector compensation, particularly given the infrequent need for their services and the ability to use temporary personnel. Banquet servers are, in many cases, being paid more than directors and managers.

Conversations with management revealed that housekeeping staff are paid $17 per hour plus benefits. This, also, is well above market rate for similar work. Once more, when put together with an under-used facility, this is an area in which to achieve savings.

Two private vendors, SMG and PFM, operate the three venues and the parking garage. As part of their contract with the Authority, they also provide marketing and sales expertise and help to bring events to the facilities. Additionally, the Providence Visitors Bureau is paid for marketing services. These professional contracted services may make such a large marketing staff unnecessary.

While we acknowledge the need for full-time positions to maintain continuity and institutional knowledge, the number of full-time positions doesn't appear to not be justified by the work schedule and size of the work load.

In our discussions with management, they confirmed that compensation for stage hands at the Dunkin Donuts Center is approximately 50% higher than other venues in New England. This, plus the surplus full-time positions, no doubt adds to overhead, makes the RICCA less competitive for attracting business, and contributes to their deficits.

Likewise, the uncompetitive price structure dampens the stimulus that the Convention Center complex could provide to our economy. As a result, fewer are booked and surrounding businesses do not receive the benefit that more conventions and public exhibitions would bring. Although the Convention Center does provide economic impact at its current rate of bookings, we believe, by trimming costs and insuring more competitive pricing, it has the ability to deliver much more.

Marketing

Marketing is critical to attracting more conferences, conventions and public events to our facility. The RICCA employs 9 full-time staff, gives the Providence Tourist Bureau $500,000 annually and uses the expertise and wide-ranging contacts of the private facility management companies, SMG and PFM.

We were provided with the marketing plans from the past 6 years. Examination of those plans reveals significant deficiencies. Successful marketing plans require a strong foundation of research. This research must include strengths and weaknesses of the facilities, as well as competitors. They must look backward and forward and point to changes in the competitive environment. Management must use the research to react to those changes, make adjustments to overhead costs and market dynamics. In short, marketing requires constant analysis, adjustment, and transformation of the business model. Unfortunately, the RICCA marketing plans do not include the necessary research studies that would drive the growth of the business model and attract more business to the Authority.

To the contrary, the marketing plans produced by Authority staff appear to be 'maintenance' plans.

a. Performance targets are not clearly established and performance is, therefore, not judged against those targets. An examination of the challenges and opportunities lost in the previous fiscal year is missing.

b. There is poor competitive analysis as to whom the Center competes against in trying to "book" public shows, conventions, trade shows and local events - locally, in the region and in the mid-Atlantic states.

c. There is no discussion of the challenges and opportunities the Center faces in the next fiscal year or the following three fiscal years, and how these challenges and opportunities will be handled.

d. Most of the Authority's strategies and initiatives have little in the way of quantitative measures to determine if the goal or initiative added value to Center operations.

e. Financial targets are not set and measured quarterly for public shows, conventions, trade shows and local catering. Most of the strategies and initiatives listed for each “profit center” are an “activity list.”

f. Where financial numbers are projected from year to year, no basis is given for the figures and there is minimal 'reach' to do better.

g. They have not established a way of measuring the marketing success of events. The Authority staff was unable to provide quantitative metrics illustrating the effectiveness of marketing. This negates using their experience as a selling tool when looking for new business.

h. The plans contain no benchmarking against Centers in other cities similar in demographics to Providence.

i. The plans contain no researched analysis of the changing environment affecting each profit center. The Authority does not provide a contingency plan to mitigate environmental risks.

j. The advertising/promotion program is not complete or well executed. Advertisements and social media are useful for reminding individuals/organizations that the facility is in business. No dollar should be spent on any of these marketing activities without a way of measuring business cost efficacy. However, the Center lacks a methodology for measuring the success or failure of their advertising expenditures.

k. Personal contacts (personal selling) are still the best way to attract major events. Over $50,000 is spent annually on travel. That equates to nearly two trips per month. However, there is no analysis of the success of those sales trips. There is no way of determining if those dollars have resulted in new bookings.

l. The Authority has not developed a 'dashboard' of key measures/metrics that will inform taxpayers whether or not RICCA is meeting financial and program objectives.

Critical to the fiscal health of any organization is a thoroughly researched comprehensive marketing plan with performance goals for facilities and staff, realistic benchmarks and quantitative metrics to gauge success or failure of strategies and initiatives, analysis of challenges and opportunities, and a discussion of strategic modifications to operations. Unfortunately, the Authority has not developed a comprehensive marketing plan.

Board of Directors

The Board of Directors has a fiduciary responsibility to the taxpayers of Rhode Island. It appears that they have been largely absent.

While they are not expected to be involved in the day-to-day management of the three venues, they should be providing oversight, establishing performance goals and monitoring achievement of those goals. It is their responsibility to hold the Convention Center Authority staff accountable for the efficient, effective, and profitable operation of the Center's assets.

They must monitor expenses and costs to insure a competitive price structure. They should assist in developing metrics against which the Authority's operations can be judged from year to year and benchmark results with similar facilities locally and in the region.

It is no longer acceptable for the Authority and its three facilities to run deficits and expect the taxpayers to foot the entire bill for their debt. The Board must take their fiduciary responsibility more seriously, make changes and steer the Convention Center Authority on a profitable path or be replaced.

Part 3

Recommendations

The RI Convention Center Authority is intended to be a component of economic vitality in Rhode Island. The mission statement affirms:

> *The mission of the Rhode Island Convention Center Authority and its contracted management organizations is to stimulate Rhode Island's economy by bringing major conventions, exhibitions, trade shows, concerts and entertainment to its three facilities. To accomplish this mission we must engage the use of strategic marketing and communications tactics and public relations initiatives. Our underlying goal is to operate at the greatest public benefit at the least public cost.*

We believe the Authority can and should be contributing a higher level of activity than it currently produces. It must concentrate on the activities and actions that will make it a stronger component of our economic development arsenal. It is not acceptable for the buildings to be vacant 60% of the time, while paying salaries and operating costs 100% of the time.

<u>We Recommend:</u>

1. Development of a competent and thorough marketing plan that addresses the deficiencies outlined earlier in this report.

> *<u>Specific Goal Recommendations:</u> Currently RICCA is spending significant dollars on marketing: Internal staff and external vendors. Unfortunately, its plan is weak, poorly researched and not focused on growing the number of conferences, events and public exhibitions. It can be characterized as a 'maintenance" plan.*
>
> *We recommend current staff prepare a one to three year marketing plan to generate 20% new profitable bookings by June 2017 (20% more profitable revenue than 2015) Targets for new and continuing business should be selected for each of the three years.*
>
> *December 2015*

2. Development of personnel performance goals and objectives that requires growth of the business

> *<u>Specific Goal Recommendation:</u> The RICCA has been requesting and receiving $1.5 million in 'Start-up" funds. Although they account for this money as income, it is in fact a taxpayer subsidy. In addition under the same income category is $60,000 for staff parking fees and $250,000 for utilities at VMA paid by taxpayers. This highlights that fact that RICCA is running a deficit.*

Management must recommend a cut in all expenditure categories to cover losses. Zero-based budgeting must be instituted for each activity. Financial statements must be prepared so the Authority knows the profit and loss of each activity, as well as events, at the complex. December 2015.

Establish a performance pay system that rewards employees/management for suggesting improvements to Authority operations and for generating profitable business.

December 2015

3. SMG has several collective bargaining agreements, which expire at various dates through December 2016, covering approximately 71% of SMG's labor force. Collective bargaining agreements expiring prior to June 30, 2015 cover approximately 19% of SMG's labor force. This provides an opportunity to reduce overhead and costly work rules. Additional CBA concessions might include the elimination of duplicative work assignments, sharing of personnel across venues wherever possible, realigning pay and benefit compensation to be commiserate with private sector employees.

Specific Goal Recommendation: Excessively high overhead added to leasing/rental costs and restrictive material handling, booth labor and non-official contractor rules are putting RICCA at a competitive disadvantage. Accordingly, we recommend changing management rules to reduce costs by 30% in 2015/2016.

June 2016

4. Focus on reducing and containing costs in order to increase the ability to compete more effectively for bookings and new business. Study successes and failures for opportunities to improve.

Specific Goal Recommendation: Several events have lost money. This is not a beneficial selling tool for RICCA. Establish a system for studying each event, develop confidential vendor surveys, process-map intake/outtake and ticket sales processes to determine deterrents to financial success. Financial analysis /metrics of each event must be prepared so the Authority can determine the profit/loss of each and develop a continuous improvement model to alleviate deficiencies.

December 2015.

5. Require cost/benefit analysis for all purchases, programmatic changes, and marketing strategies.

> *Specific Goal Recommendation: Require a formal and independent process be devised for conducting a cost/benefit analysis for every purchase of new/used equipment above $3,000.*
>
> *September 2015.*

6. Review rules that apply to clients that rent the Authority's venues. They appear to be overly restrictive and drive the cost of doing business in our complex to unprofitable levels. If these companies cannot profitably hold their event in Providence, they will not book and /or return. An emphasis needs to be placed not only on attracting new business, but also in retaining current customers.

> *Specific Goal Recommendation: Perform at top-to-bottom management audit to evaluate all administrative and operational policies to determine which are roadblocks to profitable operations of the facilities.*
>
> *December 2015*

7. Analysis indicates that events are cyclical in nature. More revenue is generated during the winter months than during the summer. As such, slow months create an overall drag on the profits for the Convention Center Authority that must be recouped during the course of the year. While offering non-concert events during the summer months may increase revenue, lowering indirect salary costs will reduce the net deficit.

> *Specific Goal Recommendation: Analyze staffing levels and shift staffing to more efficient pay schedules. Over the last three summers, the Dunkin Donuts Centers has lost approximately $3 million as a result of indirect salary expenditures. Reduce indirect salary expenditures during the summer months by 50% over the three year rolling average.*
>
> *December 2015*

8. Board of Directors; Fiduciary responsibility includes attendance at meetings, understanding financial statements, asking questions, and avoiding conflicts of interest.

Specific Goal Recommendation: The Authority must establish a governance system which includes a committee structure and a list of responsibilities for Board members, as well as a mechanism for removing members who do not fulfill their duties.

Open Items

1. Secure and study the Collective Bargaining Agreements for liabilities and opportunities. To date the Authority has refused to produce copies of the CBAs that govern personnel and work rules. However, they are a critical component to understanding why the three venues are not operating at maximum capacity and why they are producing deficits.

In addition, a recent auditor's report indicated possible financial liability to the Authority and by extension to taxpayers, since they are the backstop for costs the Center does not cover with its income.

The Auditor noted:

> *"The Authority's legal counsel has determined that it is reasonably possible that the Authority could be responsible for funding the unfunded pension obligations attributable to SMG's labor force, past and present, who are beneficiaries of the union-sponsored multi-employer defined benefit plans to which SMG contributes."*

2. Continued monitoring that holds the Authority's Board of Directors and management accountable for growth and profitability. Request a quarterly report with supporting documentation on initiatives, operations, revenue, costs, marketing plan and changes to operating structure.
3. Require line item transparency in the Rhode Island State Budget for Convention Center so it does not return to an auto-pilot request for taxpayer dollars.