

Financial Assessment

Visit Colorado Springs

Executive Summary



Respectfully and thoughtfully submitted March 28, 2022

Observations and Operational Environment

Destination and Organizational Strengths

VCOS is an exceptional DMO and has continually been an industry leader in best practices (as evidenced by not only being accredited through the Destination Marketing Accreditation Program, but also by being accredited with distinction) and transparency, as well as being led by a respected, veteran team of executives.

- VCOS navigated the COVID-19 pandemic very well from a financial standpoint. The swift moves from financial leadership to reduce expenses, conserve cash, and to provide accurate and timely forecasting allowed VCOS to maintain operational stability throughout the pandemic while not only preserving cash for recovery efforts, but also growing cash and reserves.
- In an industry built on accountability and transparency, VCOS has implemented several processes to ensure exceptional stewardship of funds, including:
 - A transparency page on the VCOS website with audited financials, 990 returns, budget, and performance metrics
 - In-depth Treasurer review of bank statements, CEO and CFO expense reports, vendor lists, and credit card statements
 - Board approval required to hire and fire the CFO
 - Robust finance committee meetings with detailed review of financial statements
 - Numerous internal processes designed to segregate duties and reduce the likelihood of fraud

This open and transparent behavior has built an attitude of trust among the community regarding VCOS's leadership position in the industry and has made them a trusted resource for industry information.

- As an attractive, outdoor destination, Colorado Springs prospered through the COVID pandemic. The pent-up demand for travel and outdoor activities, along with savvy sales and marketing activities, allowed Colorado Springs to garner market share and drive rates in the lodging industry.

Areas of Risk

- Like most DMOs, VCOS is highly dependent on revenue from the Lodging and Automobile Rental Tax (LART) which accounts for about 90% of total revenue. These revenues are obviously based on the performance of the hotel market but are also subject to contractual limitations. While most DMOs operate on a contract that allows them to share in the growth or contraction of the lodging industry, VCOS has been operating off a fixed fee contract. This means that as both the LART and the expectation on services rendered by VCOS have grown, the VCOS budget hasn't grown proportionately. It would be advisable to return to a contract that awards VCOS a percentage of the total LART, as well as increasing the term to an industry standard of five (5) to six (6) years.
- As an attractive, outdoor destination, quality of life issues for residents are top of mind for community leaders. As community leaders grapple with maintaining parks and open space, workforce development, and affordable housing and transportation, a resident sentiment study would be valuable to enable leaders to understand the concerns of residents and then develop plans to continue to grow the visitor economy while maintaining exceptional quality of life for residents.
- There is a disturbing trend of group hotels in the market converting to affordable housing. In addition to removing rooms from the marketplace, the loss of these rooms removes the availability of a lower price point product from the destination which can stress sports, events, and other groups that help to supplement need times. This is placing strain on the group and meeting sales efforts and may require a shift in sales and marketing tactics by VCOS.
- As with every industry, the visitor economy in Colorado Springs is susceptible to the current economic realities of rapid inflation, increasing energy prices, and rising interest rates. The latest Traveler Sentiment Study from Longwoods International and Miles Partnership (released on March 22, 2022) indicates that rising gas prices will impact the decision to travel in the next six months for 63% of American travelers, which is up 7% from just two weeks ago. Equally concerning is that 48% of travelers say these increases will either reduce the number of trips they are taking or will cause them to cancel their trips. On a positive note, 90% still expect to travel in the coming months and 33% say this will encourage them to choose destinations closer to home.

Findings and Recommendations

Financial Policies

Policies are not only useful for ensuring common understanding of expectations and acceptable activity, but also serve as a method to facilitate communication through the organization. Processes are critical to ensuring efficient operations throughout the organization.

VCOS has several different policies related to financial operations but does not have a consolidated Financial Policy document.

Recommendations:

- Consolidate all policies related to financial management into central location
- Commit to ongoing staff training and review of policies

Financial Processes

VCOS has well-thought and effective internal controls with practices that provide very solid segregation of duties for a small staff. The End of Month Accounting Procedures document is thorough and clearly outlines the necessary steps to close the month accurately.

VCOS has a very well-run finance department and has worked to streamline processes while maintaining fiscal responsibility. One of the overall issues that we noted was a duplication of effort between employees, the finance team, and across various systems. Duplication is obviously an inefficient use of time for staff, but also increases the likelihood of error. We have a few recommendations that we believe will create efficiencies for the department.

Recommendations:

- Leverage technology to ensure that systems interface appropriately to avoid duplication of effort, to allow staff more visibility to data decreasing the need for independent systems to track information
- Commit to ongoing staff training and review of policies

Financial Statements

Financial statements are simple and easy to read. To aid in understanding by the end user, we recommend a few adjustments to presentation.

Recommendations:

- Easily show year over year information to highlight progressive performance
- Develop and implement dashboards to aid in understanding and to provide a quick visual analysis of organizational performance

Contract for Services with City of Colorado Springs

One of the biggest challenges for any DMO is to ensure stable and equitable funding for its services and mission. It is clear that the City of Colorado Springs values the work of VCOS and values the visitor economy which supports so many families and neighbors in the community. VCOS has operated at the highest level of industry standards for years and has earned a position of trust in the community. While the core mission of attracting visitors to a destination has remained the same, even pre-COVID the responsibilities and expectations on a DMO have grown and shifted. As we are emerging from the pandemic, the roles and expectations on the DMO continue to shift, as do the manner and methods in which we do our work. With the contract terminating in 2023, we would recommend the consideration of a few items.

Recommendations:

- Contract term – most DMOs are contracted with their municipality for an average of 6.2 years, with some enjoying contracts of 10 plus years. These extended contracts allow for the DMO to operate with the assurance that their longer-term vision (as evidenced by a 10-year Destination Master Plan created in 2018) will be supported by the municipality.
- Funding – most DMOs receive a specific percentage of lodging taxes collected. This allows the DMO to share positive growth while also leveling the risk for the municipality in a down market. We would recommend reviewing the historical allocation of LART funds to determine an equitable percentage allocation which would guarantee VCOS 60-70% of total collections.
- With the topic of increasing the LART for funding various programs, we would recommend applying this same percentage to any increase.
- KPIs – as the role and responsibilities of DMOs have shifted, so has the value of traditional KPIs. We would recommend not including specific KPIs in the agreement with City of Colorado Springs, but to form KPIs annual around the marketing plan. As the market shifts and changes, so will the types of KPIs tracked to ensure ROI and performance.

Other Observations

As mentioned, the role of DMO is changing and the DMO is being expected to lead in the destination management arena, as well as the destination marketing arena. VCOS has done an exceptional job of earning their position as a trusted community leader.

Recommendations:

- Voice of the Visitor – tourism is the third largest employer in the Pikes Peak Region, providing 20,000 jobs to our families, friends and neighbors while contributing \$2.2 billion to the region, which results in over \$100 million in local tax revenue. As the City is considering policy decisions and long-term planning, it is vital the voice of the visitor be at that table to ensure the continued success of the tourism industry. VCOS is the only entity that can provide that voice. One item that came to light was the City's emergency communication plan, especially around wildfires and other natural disasters. With over 21.1 visitors annually, it is critical that the guests of Colorado Springs are included as an integral audience in this plan.
- Hotel Conversions – one of the quickly emerging issues for Colorado Springs is the desire for ownership groups to convert hotels to affordable housing. These types of changes will change the demographics of the visitors and could have long-term implications to the financial health of the tourism economy in Colorado Springs. We would encourage the community to engage in thoughtful, forward-looking conversations about the type of tourism community that is desired.
- Succession Planning – one of the strengths of VCOS is tenured staff and tenured board members. This has led to organizational stability as well as consistent oversight and governance. We would encourage the organization to look at succession planning at both the board and staff level. For the board, consideration should be given to opening up committee participation to non-board members to allow for the "vetting" of future board members while building a growing number of VCOS ambassadors. For staff, consideration of adding middle management positions that can grow into executive leadership would pay dividends.