

## **AICPA 2010 Accounting Competition – Umstead Hotel & Spa**

### **The daunting task of maintaining peace and tranquility**

So you're Ben Campsey, Director of Finance for the Umstead Hotel & Spa. (Nice going!) You're part of the management team; you maintain budget and forecasting models; you assist with major business decisions for the hotel. But today you're sitting in your office, wracking your brain for a solution. The general manager, Jim Beley, and other higher-ups would like to see a business proposal for sustainability initiatives the hotel can put in place. The responsibility for creating that proposal falls to you. Moreover, you and your team—that would be Bob Costello, Director of Engineering, and Darah Whyte, Marketing Manager—must ensure that the projects you propose align with the overall mission of the luxury hotel and spa. It's a tall order, but here's the upside: If Jim likes your ideas, they go on to the committee with some edits for capital approval. And from there it's a short road to them becoming a reality—making the Umstead's practices even better for the community and the environment.

#### **A Modern Classic**

Now you're mulling over the history and vision of the hotel as a whole. The Umstead Hotel & Spa (the Umstead) is a mid-sized luxury hotel offering room and suite accommodations as well as spa services to the Triangle area of North Carolina. The Triangle consists of three major cities—Raleigh (the state's capital), Durham, and Chapel Hill—as well as several adjacent towns and communities, including the hotel's home of Cary, NC. Within the Triangle is Research Triangle Park (RTP)—the nation's largest research park—Raleigh-Durham International Airport, three major research universities, and several smaller public and private institutions of higher learning.

Founded by Jim and Ann Goodnight, the Umstead opened its doors to the public in January 2007 and quickly became a North Carolina institution. This is largely due to Mrs. Goodnight's vision. An avid world traveler, Mrs. Goodnight wanted to bring a very sophisticated, luxury-class hotel to North Carolina as a gift to her home town. She poured a lot of her efforts into ensuring all details meshed with the thematic underpinning of the hotel: art and nature. Together with daughter Leah, Ann hand-picked all the artwork (largely from North Carolina artists) displayed throughout guest rooms, hallways, common areas, and the conference area, including the custom glass sculpture in the main lobby. Upon one walkthrough of the hotel it's immediately obvious how much thought went into even the smallest details.

The hotel itself offers 200 thousand square feet of first-rate facilities, with 123 guest rooms from 540 to 570 square feet, and an additional 27 suites ranging from 650 square feet to the 1,725 square foot Presidential Suite. Rooms overlook the 12 wooded acres of property, with balcony rooms overlooking the on-property lake.

The spa and fitness facilities offer organic botanical treatments and 14,000 square feet of art- and nature-inspired serenity to hotel guests and local residents looking for a massage or spa treatment. Outside, guests have access to a heated pool and .3-mile walking trail through the woods around the lake. Herons restaurant and the adjacent bar have earned critical accolades for the Executive Chef's Southern food with a modern twist, sourcing produce and many of the other ingredients locally, and growing its own herbs in the plaza of the hotel.

Currently, the Umstead employs 300 individuals who enjoy competitive wages and benefits, including health and dental, 401k matching, and generous Paid Time Off (PTO). Employee retention is high, with employee turnover approximately half the average for the hospitality & leisure industry as a whole. The professionalism and courtesy of the staff are ultimately what keeps the hotel earning its superlative recognition, and their satisfaction is key to the success of hotel operations.

The Goodnights' efforts paid off, and a mere three years since its founding the hotel is recognized as one of the top hotels in North America and the world. The Umstead is rated a 2010 Five-Star hotel by the Forbes (formerly Mobil) Travel Guide. It shares this distinction with only 47 other hotels in North America of the more than 50 thousand the Forbes Travel Guide rates. It has also received a 2010 AAA Five-Diamond rating, which is an honor bestowed on 112 other North American hotels of the more than 60 thousand that AAA rates. 2010 is the third consecutive year the Umstead has received these distinctions. These ratings are based on several criteria, but essentially mean that the hotel offers an experience that is well above and beyond a guest's expectations, with flawless service and a near-obsessive attention to detail on the part of the hotel management and staff. Ultimately, hotels achieving these ratings are considered destinations unto themselves.

#### The Evolution of Sustainability

While the Umstead spent the first couple years of its operations building its reputation, they've recently begun to think more about the hotel's "footprint," as well as its social and community impact, and how all these factors could potentially affect its financial bottom line. As a luxury hotel, the Umstead doesn't intend its sustainability efforts to cut corners or suggest that guests should sacrifice, but rather to be symbolic of a deeper commitment to the overall vision of art and nature. This "Triple Bottom Line" approach of monitoring the hotel's social, environmental, and economic trajectory helps the management team critically evaluate and drive many of the hotel's sustainability efforts.

Approximately a year and a half ago, the hotel formed a Green Committee, and really began to integrate sustainability into the daily mission in meaningful ways. Recently, they even gathered all 50 managers to collectively brainstorm, edit, and agree upon a vision and values statement that reflected the goals and ideals of the entire management team.

The Umstead has made quite a number of changes already. They already have, for example, institutionalized waste management including recycling and composting of food scraps from Herons and from the Bar, diverting over 19 tons of waste through recycling and about 1,000 pounds of food scraps per month to compost bins located on neighboring property. To eliminate some of the individually-wrapped items in rooms, they commissioned an artist to create a container for their cotton swabs (as one example), in order to avoid compromising the aesthetics, sanitation, or overall sense of importance implied by individual toiletries. Carpet cleaning is done in an eco-friendly manner. To reduce their energy footprint, the Umstead offsets some of its electricity from a neighboring solar farm. The hotel has also recently invested in tinting the windows to reduce some of the heating and cooling costs, and combines tinted windows with a blackout curtain that covers 90% of the window. A reflective roof also lowers energy used toward heating and cooling. Water use is mitigated with low-flow toilets installed throughout the hotel. One of the main sources of pride for the Umstead, though, is water runoff management, which they control not only with appropriate natural buffers and cistern collection of rain water, but also through the lake, which is a living wetland.

On the social side, the Umstead has a long history of being engaged. The Umstead supports local organizations and offers in-kind and charitable donations, encourages employees to volunteer their time (even offering paid time off for volunteering), and its senior management serve on the Boards of local non-profits. Employee benefit plans are generous, including tiered PTO well above the industry standard. The Umstead also wants to demonstrate positive leadership as a mid-sized luxury hotel in the community, but they're still trying to balance the desire to do more with the need to maintain their luxury brand. Because of this, they've kept most of their sustainability efforts behind the scenes, and haven't marketed them on the website or in any publications. They recently achieved a certification lauding their environmental and social sustainability efforts, but they're still not sure if it's possible to communicate their commitment to sustainability without worrying about accusations of "greenwashing" or bandwagon jumping.

Very few of these efforts so far have overtly affected the front-of-house experience. The Umstead had long ago rejected the standard "green" efforts used by many hotels—especially the placards in the bathroom and by the bed encouraging guests to reuse their linens. While these efforts obviously save money and reduce use of cleaners, the Umstead management had felt that asking guests to sacrifice fresh linens would detract from the indulgence generally delivered at a luxury hotel. Such efforts might also compromise the Umstead's ratings and hurt its reputation by implying that the hotel is pinching pennies. There are many other opportunities, however, and it's important to focus on those possibilities early on while trying to brainstorm innovative front-of-house sustainability efforts.

The Umstead has seen a lot of positive changes in the past year and a half, but there is plenty of room to grow. Really, it's still learning to process a lot of these changes,

and needs to think creatively on how to reduce its footprint most effectively without compromising the guest experience or suggesting cheapness.

### Decisions, Decisions

The hotel's management wants to pursue aggressive sustainability initiatives. Because it's a guest-centric hotel, profits and costs are not the sole driving factor for decisions made at the hotel. It is, however, still a recession economy, and naturally they can't do everything at once. It's up to you to narrow down the options for what to present.

One of the factors that will play into many of the potential projects, and might ultimately affect the decision you make, is the availability of federal tax cuts for energy efficiency projects under the Energy Policy Act of 2005. Under that law, commercial organizations are eligible to claim up to \$.60/square foot for up to three areas: HVAC, windows, and the building envelope (the physical structure, especially the exterior and insulation). This would allow a claim of up to \$1.80/square foot if all three areas are incorporated into the scope of the project. This would help offset the costs of some of the energy efficiency projects. Locally, the utility provider for the town of Cary also offers programs that help fund programs and activities like these.

### Starter Ideas: Commence Analysis

Here are the ideas the Umstead management team is already considering. Each option has its pros and cons, especially varying in overhead cost and ease of implementation. Go through and select the ones your team deems most promising – at least two should be in your proposal – and add a third idea of your own if you choose.

#### *Collect condensate from chillers.*

More and more places are collecting the condensate from the outside of their chiller units and piping the water to cisterns for irrigation. This can be done alone or together with rainfall collection. In one of the example, a university campus that is using this has noted a payback period of less than a year after all the costs were taken into account. Unclear is the cost to retrofit and integrate into rainfall collection for an organization this size.

#### *Incorporate LED Lighting.*

The city of Raleigh and North Carolina State University have both utilized a significant amount of LED lighting across campus and around town. (See Tips section online for some area examples.)

NC State in particular has incorporated LED lighting primarily into parking decks and residence halls. They used products from several vendors, one of which is North Carolina-based. NC State has installed over 1,500 6" canister lights in one of their residence halls. They believe that it is the largest single installation in a residence hall facility in the nation. Amazingly, they have seen a 16.7% reduction in overall

energy usage since the full installation. The overhead costs were significant - each light cost roughly \$93 - but prices have since dropped. NC State has said they will realize a full payback of the lights and housings within 9.5 years. Bear in mind that the life expectancy for LED lighting is estimated to be about 6-10 times the expectancy of Compact Fluorescents (CFLs) and about 60-100 times the expected life of a regular incandescent bulb. Also, LEDs don't carry the disposal risk of CFLs, which contain mercury. Cost is obviously the major issue on this one.

#### *Perform Energy Audits.*

Many energy companies and consultants have worked with higher education institutions and private businesses in developing energy reduction plans. They can either conduct a full audit—examining all aspects of the property in great detail and coming up with an itemized report—or they can do a building systems analysis—examining the back-of-house systems. The Umstead does have a contact with someone locally at one of these energy companies, they hear these audits can sometimes be costly, and there are no guarantees they'd realistically be able to implement their suggestions. It could be useful in pinpointing opportunities, though.

#### *Enhance Building Automation Systems.*

Enhancing building automation could lead to additional savings. There are some companies that have extensive programs and services that can be incorporated as well, allowing you to remotely control all building systems from one location, which can lead to a reduction in energy use. There are at least a few companies that specialize in the hospitality community, too. The Umstead knows of at least a couple companies that might be of interest. Some of them use RFID devices that are 'self-powered' to aid in controlling environments. They could be utilized to control rooms when they are vacant. Imagine the savings if you could control lighting and HVAC systems. This type of system uses advanced occupancy sensors and incorporates many elements into further controlling, such as temperature controls that will only allow the temperature to rise or fall within 5 degrees, but it's still new technology. There's another type that uses infrared sensors to control all the electrical, heating, and cooling in the room. It's somewhat simpler, but with a lower overhead cost. Reportedly, there's a place locally that has used the latter system to great success. Maybe they could ask around and see if they're willing to share information.

#### *Update Turndown Service.*

You could also think about adjusting the turndown procedure. Currently, the Umstead welcomes guests to their rooms in the evenings with the standard sheet turn-down, plus bath slippers, a shoeshine cloth, and a laundry bag for guests to have their clothes laundered. At the time of turndown service, staff will turn on the television to welcome the guests with ambient noise. The social climate of America, however, seems to be trending more and more toward conservation, and instead of being welcomed, the majority of guests seem to be upset by the television running "needlessly." This would be the easiest to change, obviously, but the management is

wondering how we'd fill the void of that extra touch of service, and how it would affect guests' experiences.

What should Ben's top three choices be?

It's decision time. We've given you five ideas, but maybe you and your team will have some fantastic brainstorm of your own. If so, feel free to select two of the projects above and include your own third idea in your proposal – we're always up for hearing new, creative ideas.

For instance, none of the options included have a pure social responsibility component. Is the Umstead already doing enough, or is there something more they could be doing? Do these choices address the needs of their major stakeholders in a meaningful way? A promising, creative environmental or social suggestion would win major points with the management team and show that accountants can be creative, too, but you'll have to work harder to justify it against their initial ideas.

Explain why you think your three choices would be best. The Umstead isn't expecting a quantitative analysis just yet, but they'd like an executive summary, which means you need to deliver a response in 750 words or less (double-spaced), outlining the top three opportunities and their fit with the hotel's strategy, vision, and sustainability goals. If your proposal is approved, you will need to provide a quantitative analysis in the follow-up report, so explain how you plan to evaluate the options quantitatively and what information you'll need to do so.

Good luck!