

FINANCE COMMITTEE

11-0182R

RESOLUTION APPROVING THE BUDGET FOR THE FISCAL YEAR
MAY 1, 2011, TO APRIL 30, 2012, IN THE AMOUNT OF
\$5,787,409 FOR THE SPIRIT MOUNTAIN RECREATION AREA
AUTHORITY.

CITY PROPOSAL:

RESOLVED, that the budget for the fiscal year May 1, 2011, to April 30, 2012, in the amount of \$5,787,409 and the 2012 repair and replacement budget as set out in the budget on file with the city clerk as Public Document No. _____, for the Spirit Mountain recreation area authority is hereby approved.

FURTHER RESOLVED, the city acting through the city treasurer, shall make available a line of credit up to \$350,000, to be drawn upon as needed, to assist in the management of cash flow within the budget as approved, same to be repaid in full (to a zero balance) by October 31 of that year. Interest at a rate of 4.00 percent per annum shall be charged on drawn funds. The city treasurer shall determine the forms, procedures and supporting documentation that will be required to draw on the line of credit. Such transactions shall be subject to audit and public disclosures.

Approved:



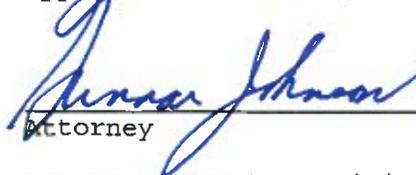
Department Director

Approved for presentation to council:



Chief Administrative Officer

Approved as to form:



Attorney

Approved:



Auditor

STATEMENT OF PURPOSE: Spirit Mountain is the only authority which operates on a different fiscal year than the rest of the city budgets. This resolution approves the expense budget for the Spirit Mountain recreation area authority for the budget year May 1, 2011 - April 30, 2012, in the amount of \$5,787,409. This budget includes a repair and replacement capital plan which must be approved per the 2003 refinance agreement, Section 3.1e. Also included in this budget, per Section 3.2a of the same agreement, is a \$225,000 appropriation from the city of Duluth's tourism taxes to Spirit Mountain for payment of principal and interest on the refinancing bonds; and an additional \$125,000 for capital expenses for a total tourism tax allocation of \$350,000.

The line of credit is being made available to draw upon for cash flow purposes caused by the authority's seasonal operations. It is neither parties' intent to use this line of credit either in total or on a routine basis. At the request of the authority, the proposed line of credit is \$350,000.



	<u>FY2011 Budget</u>	<u>FY2011 Estimated</u>	<u>FY2012 Budget</u>	<u>% Change From FY 11 Est.</u>
OPERATING REVENUES				
Sales	\$ 1,263,947	\$ 1,155,714	\$ 1,158,596	0.25%
Less Cost of Goods Sold	\$ 438,680	\$ 427,949	\$ 388,725	-9.17%
Gross Profit on Sales	<u>\$ 825,267</u>	<u>\$ 727,765</u>	<u>\$ 769,871</u>	<u>5.79%</u>
Charges for Services	\$ 3,542,963	\$ 3,749,856	\$ 4,277,313	14.07%
TOTAL OPERATING REVENUE	<u>\$ 4,368,230</u>	<u>\$ 4,477,621</u>	<u>\$ 5,047,184</u>	<u>12.72%</u>
OPERATING EXPENSES				
Salaries & Wages	\$ 2,239,032	\$ 2,181,824	\$ 2,498,915	14.53%
Employee-Related Expenses	\$ 37,641	\$ 29,000	\$ 46,774	61.29%
Contract Services & Fees Expense	\$ 174,542	\$ 178,063	\$ 174,922	-1.76%
Materials & Supplies Expense	\$ 237,952	\$ 279,219	\$ 278,989	-0.08%
Maintenance & Repairs Expense	\$ 164,913	\$ 163,071	\$ 220,720	35.35%
Leases & Rental Expense	\$ 42,933	\$ 44,231	\$ 47,082	6.45%
Marketing Expense	\$ 276,200	\$ 296,072	\$ 310,790	4.97%
Utilities Expense	\$ 399,068	\$ 393,593	\$ 393,039	-0.14%
Finance Expense	\$ -	\$ 27	\$ -	-100.00%
Other Expenses	\$ 148,594	\$ 148,800	\$ 173,418	16.54%
TOTAL OPERATING EXPENSES	<u>\$ 3,720,875</u>	<u>\$ 3,713,900</u>	<u>\$ 4,144,649</u>	<u>11.60%</u>
OPERATING INCOME (LOSS)	<u>\$ 647,355</u>	<u>\$ 763,721</u>	<u>\$ 902,535</u>	<u>18.18%</u>
NON-OPERATING REVENUES				
Transfers from City Hotel-Motel Tax	\$ 275,000	\$ 275,000	\$ 350,000	27.27%
Earnings on Investments	\$ 4,400	\$ 904	\$ 1,500	65.93%
	\$ -	\$ -	\$ -	
TOTAL NON-OPERATING REVENUES	<u>\$ 279,400</u>	<u>\$ 275,904</u>	<u>\$ 351,500</u>	<u>27.40%</u>
NON-OPERATING EXPENSES				
Lease/Leaseback Interest Expense	\$ 34,380	\$ 25,705	\$ 17,400	-32.31%
Interest Expense	\$ 81,508	\$ 86,842	\$ 122,743	41.34%
Claims and Judgments	\$ -	\$ -	\$ -	
Other Expenses	\$ -	\$ -	\$ -	
TOTAL NON-OPERATING EXPENSES	<u>\$ 115,888</u>	<u>\$ 112,547</u>	<u>\$ 140,143</u>	<u>24.52%</u>
DEPRECIATION	\$ 444,000	\$ 500,907	\$ 500,907	0.00%
AMORTIZATION	\$ 9,060	\$ 28,653	\$ 28,653	0.00%
NET INCOME (LOSS)	<u>\$ 357,807</u>	<u>\$ 397,518</u>	<u>\$ 584,332</u>	<u>47.00%</u>
Sources of Cash				
Estimated Net Income (Loss)	\$ 357,806	\$ 397,518	\$ 584,332	
Amortization	\$ 9,060	\$ 28,653	\$ 28,653	
Depreciation	\$ 444,000	\$ 500,907	\$ 500,907	
Sale of Equipment - no lease	\$ 5,000	\$ -	\$ 20,000	
Coaster Lease Reimbursement		\$ 69,024		
Total Sources of Cash	<u>\$ 815,866</u>	<u>\$ 996,102</u>	<u>\$ 1,133,892</u>	
Uses of Cash				
Lease Principal Payments	\$ 418,201	\$ 459,405	\$ 564,076	
City of Duluth payments	\$ 90,512	\$ 90,512	\$ -	
Repair and Replacement	\$ 225,000	\$ 363,143	\$ 291,500	
Total Uses of Cash	<u>\$ 733,713</u>	<u>\$ 913,060</u>	<u>\$ 855,576</u>	
Balance Available for Capital Projects	\$ 82,153	\$ 83,042	\$ 278,316	

20011-2012 Budget with Tubing and Zip

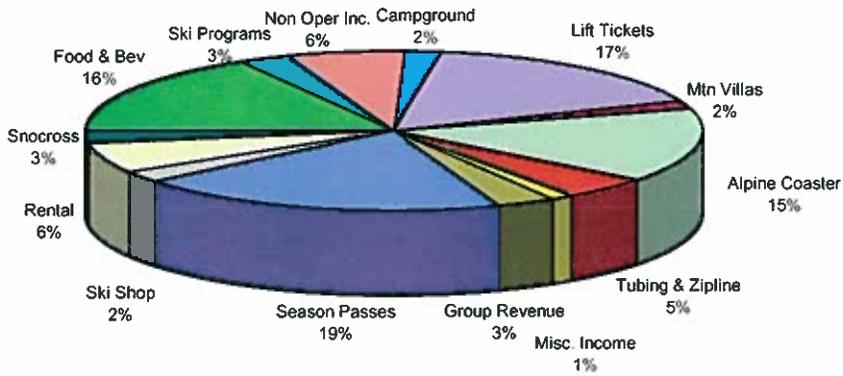
Revenues

Season Passes	\$1,134,871
Ski Shop	\$140,896
Rental	\$340,150
Snocross	\$155,700
Food & Bev	\$963,850
Ski Programs	\$153,255
Non Oper Inc.	\$351,500
Campground	\$114,500
Lift Tickets	\$955,000
Mtn Villas	\$95,694
Alpine Coaster	\$869,150
Tubing & Zipline	\$281,000
Misc. Income	\$76,743
Group Revenue	\$172,200
Total	\$5,787,409

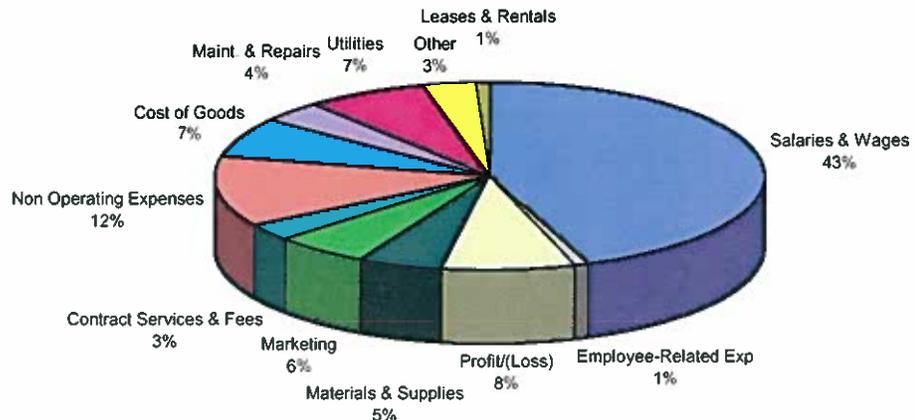
Expenses

Salaries & Wages	\$2,498,915
Employee-Related Exp	\$46,774
Profit/(Loss)	\$584,332
Materials & Supplies	\$278,989
Marketing	\$310,790
Contract Services & Fees	\$174,922
Non Operating Expenses	\$669,703
Cost of Goods	\$388,725
Maint. & Repairs	\$220,720
Utilities	\$303,089
Other	\$173,418
Leases & Rentals	\$47,082
Total	\$5,787,409

Revenues



Expenses and Profit/(Loss)



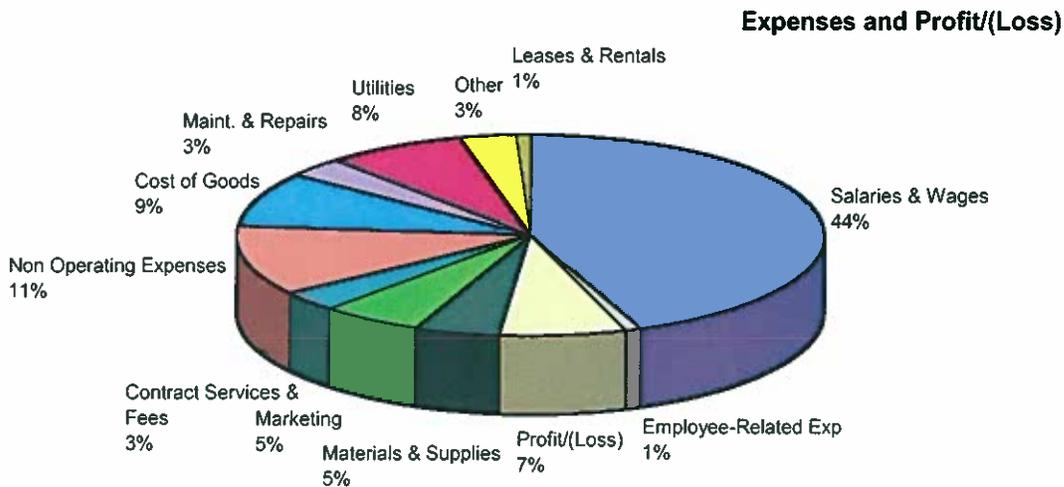
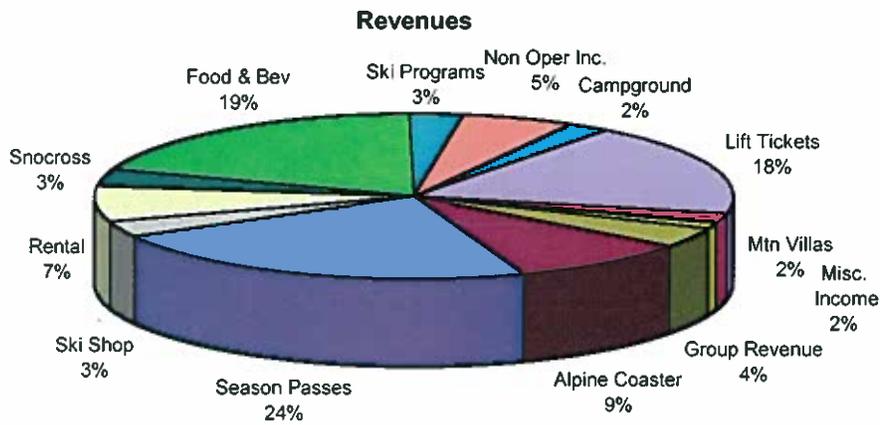
2010-2011 Budget

Revenues

Season Passes	\$1,145,225
Ski Shop	\$160,150
Rental	\$351,900
Snocross	\$171,800
Food & Bev	\$981,672
Ski Programs	\$138,593
Non Oper Inc.	\$279,400
Campground	\$114,000
Lift Tickets	\$929,000
Mtn Villas	\$92,311
Misc. Income	\$52,360
Group Revenue	\$200,500
Alpine Coaster	\$469,398
Total	\$5,086,310

Expenses

Salaries & Wages	\$2,239,032
Employee-Related Exp	\$37,641
Profit/(Loss)	\$357,806
Materials & Supplies	\$237,952
Marketing	\$276,200
Contract Services & Fees	\$174,542
Non Operating Expenses	\$568,948
Cost of Goods	\$438,680
Maint. & Repairs	\$164,913
Utilities	\$399,068
Other	\$148,594
Leases & Rentals	\$42,933
Total	\$5,086,310



2010-2011 Estimated

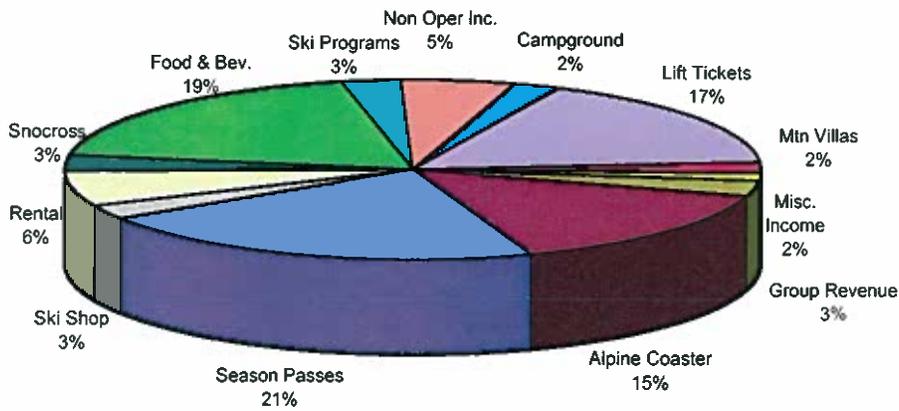
Revenues

Season Passes	\$1,110,544
Ski Shop	\$130,511
Rental	\$328,190
Snocross	\$145,244
Food & Bev.	\$993,074
Ski Programs	\$144,867
Non Oper Inc.	\$275,904
Campground	\$114,680
Lift Tickets	\$862,061
Mtn Villas	\$97,093
Misc. Income	\$66,598
Group Revenue	\$152,247
Alpine Coaster	\$760,461
Total	\$5,181,474

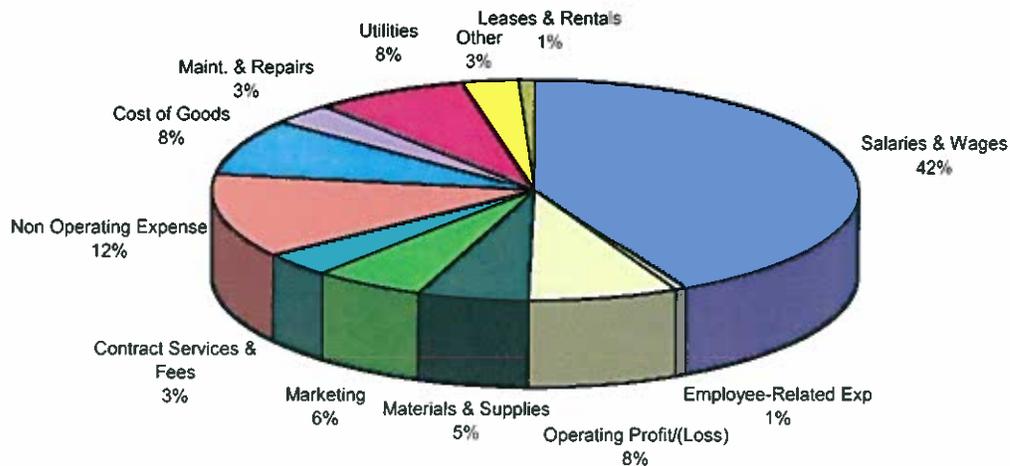
Expenses

Salaries & Wages	\$2,181,824
Employee-Related Exp	\$29,000
Operating Profit/(Loss)	\$397,520
Materials & Supplies	\$279,219
Marketing	\$296,072
Contract Services & Fees	\$178,063
Non Operating Expense	\$642,107
Cost of Goods	\$427,949
Maint. & Repairs	\$163,071
Utilities	\$393,593
Other	\$148,825
Leases & Rentals	\$44,231
Total	\$5,181,474

Revenues



Expenses and Profit/(Loss)





**Spirit Mountain Recreation Area
FY2012 Repair and Replacement Budget**

Vestibule project	\$188,000
Finish work inside vestibule project	\$10,000
2 SMI Polecat snow guns	\$24,000
Replacement mowing tractor	\$40,000
Bathroom updates	\$28,000
Computer/security equipment	<u>\$1,500</u>
Total Projects	\$291,500
Zip line/Tubing Park Lease Payments	\$58,500
Total R&R Projects	\$350,000

Spirit Mountain 2010/2011 Season Recap

Timber Twister Alpine Coaster

The July 1, 2010 grand opening of the Timber Twister alpine coaster was a turning point in the history of Spirit Mountain. After 36 years of operation, Spirit Mountain completed the original vision as a year round recreation area. The Timber Twister vastly exceeded the initial attendance and revenue projections. The ticket revenue projected for the first ten months of operation was achieved by the end of the first month of operation.

The Timber Twister has continued with strong ridership through the ski and snowboard season and has been a valuable complement to the operation.

Ski and Snowboard Season

The 2010/2011 ski and snowboard season got off to a strong start with robust season pass and snow saver card sales October through December. The positive start to the season did not continue however; both lift ticket and season pass sales failed to meet budget projections as the winter progressed. As a result of fewer ticket sales, all other areas of the operation, with the exception of lessons, failed to meet budget projections.

While one single factor cannot be identified, a combination of cold temperature in January, a sensitive economy, and an onslaught of snow storms in the Twin Cities throughout the winter, certainly contributed to the difficult season.

As the season failed to develop, we responded with aggressive marketing efforts through weekly web only specials, in-chalet promotions and a very successful end of season discounted lift ticket promotion.

What has become apparent through several challenging winter seasons is the need to add attractions and events to lessen the dependence on a short, four month revenue window.

Spirit Mountain Banquets and Events

The wedding and event aspect of Spirit Mountain's business is burgeoning and continues to become an ever more important revenue category. In 2010 Spirit Mountain hosted 60 wedding receptions, 42 banquets and 36 wedding ceremonies. 2011 is even busier with 63 weddings booked thus far and several brides still seeking available dates in 2011.

A combination of excellent food, spectacular views, modest pricing and outstanding service has established Spirit Mountain as a first tier banquet facility in the region.

Spirit Mountain Campground

The Spirit Mountain Campground has maintained consistent revenues and continues to be a popular choice for campers wanting to be close to a major destination with the solitude of a wooded campground. A number of improvements are planned for the summer of 2011 that will further enhance our guest's experience.

Spirit Mountain Business Strategy and Master Plan Implementation

What's Ahead for the Mountain?

As noted previously, the past several winter seasons have been challenging and have clearly illustrated the need for a more diversified business plan moving forward. The Master Plan update is the blueprint for the future and we've successfully completed many components of the plan in recent years, the most visible being the addition of the alpine coaster in 2010.

At the March 17, 2011 board meeting the Spirit Mountain Authority Board approved moving ahead with three new initiatives:

- ✚ Zip Line
- ✚ Mini Golf Course
- ✚ Winter Tubing Park

Pending approval and financing for the projects, the zip line and mini golf course will open July 1, 2011 and the tubing park will open on December 26, 2011. These exciting new ventures will further expand our business platform and create a dynamic attraction area for both summer and winter activities.

By siting the new attractions in the same area as the coaster, we are able to utilize the coaster parking lot and concession building and lessen the crowding in the chalet on busy weekends.

The zip line is a year round attraction, thus the activity area will be comprised of three winter activities and three summer activities:

- ✚ Summer – alpine coaster, zip line and mini golf
- ✚ Winter – alpine coaster, zip line and tubing park

The overwhelming success of the alpine coaster and the weather dependent nature of the winter business have proven the need to expand and diversify our business model. By adding activities that are sensitive to the site, family friendly and affordable, we can become less dependent on a short four month season that provides the majority of our revenues. We are also able to add more full time jobs and hire additional seasonal employees, beyond the 350 seasonal positions we already staff.

We are ever mindful of the skiing and snowboarding activities that are the backbone of our business and will continue to enhance and improve our alpine and Nordic areas to provide an excellent experience for our guests.

Capital Improvements and Enhancements

Significant improvements have been made to the facility in the last eight years. Many are vitally important but perhaps not so well noticed, i.e. snowmaking enhancements, new roofs, air conditioning, better grooming tractors and utility upgrades. Others have been much more visible to our guests:

- ✦ Remodeled Moosehead Saloon
- ✦ New Chairs on the Big Air Lift
- ✦ Interior and Exterior Painting
- ✦ Carpet Replacement
- ✦ Addition of the Slopeside Saloon
- ✦ Remodeled Café
- ✦ Relocated Ticket Sales Area
- ✦ Relocated Ski Shop
- ✦ New Head Alpine Skis
- ✦ New Burton Snowboards and addition of a Burton Learn to Ride Center
- ✦ New Kaser Ski Carpet
- ✦ New Nordic Skis
- ✦ Beginner Terrain Park
- ✦ New and Improved Signage, Interior and Exterior
- ✦ Renovated Elevator
- ✦ Lift Improvements
- ✦ Sales System Upgrades
- ✦ New Snowguns
- ✦ New Windows and Doors
- ✦ Padded Covers for Electrical and Water Hydrants
- ✦ New Lift Enclosures

All these and a myriad of smaller, yet vitally important projects have been done at a cost of more than \$2 million dollars in the past eight years. And this figure does not include the recent capital investment made in the alpine coaster, concession building and parking lot, which was an additional \$2.3 million.

Clearly, with this significant investment, the board and staff are committed to making Spirit Mountain a premier, family friendly destination for residents and visitors.

With an economic impact to the region of \$37 million, the importance of Spirit Mountain as an economic force cannot be over stated.

