

FINANCE COMMITTEE

12-0212R

RESOLUTION APPROVING THE BUDGET FOR THE FISCAL YEAR
MAY 1, 2012, TO APRIL 30, 2013, IN THE AMOUNT OF
\$5,454,720 FOR THE SPIRIT MOUNTAIN RECREATION AREA
AUTHORITY.

CITY PROPOSAL:

RESOLVED, that the budget for the fiscal year May 1, 2012, to April 30, 2013, in the amount of \$5,454,720 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.

Approved:



Department Director

Approved for presentation to council:



Chief Administrative Officer

Approved as to form:



Attorney

Approved:



Auditor

FINANCE KH:rb 04/13/2012

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, 2012 - April 30, 2013, in the amount of \$5,454,720. 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.



	FY2012 Budget	FY2012 Estimated	FY2013 Budget	% Change From FY 12 Est.
OPERATING REVENUES				
Sales	\$ 1,158,596	\$ 1,019,113	\$ 1,156,108	13.44%
Less Cost of Goods Sold	\$ 388,725	\$ 393,653	\$ 390,247	-0.87%
Gross Profit on Sales	\$ 769,871	\$ 625,460	\$ 765,861	22.45%
Charges for Services	\$ 4,277,313	\$ 3,787,831	\$ 3,992,848	5.41%
TOTAL OPERATING REVENUE	\$ 5,047,184	\$ 4,413,291	\$ 4,758,709	7.83%
OPERATING EXPENSES				
Salaries & Wages	\$ 2,498,915	\$ 2,412,026	\$ 2,510,233	4.07%
Employee-Related Expenses	\$ 46,774	\$ 40,546	\$ 43,050	6.18%
Contract Services & Fees Expense	\$ 174,922	\$ 146,779	\$ 164,702	12.21%
Materials & Supplies Expense	\$ 278,989	\$ 282,938	\$ 288,642	2.02%
Maintenance & Repairs Expense	\$ 220,720	\$ 170,468	\$ 168,242	-1.31%
Leases & Rental Expense	\$ 47,082	\$ 51,931	\$ 52,421	0.94%
Marketing Expense	\$ 310,790	\$ 293,899	\$ 278,314	-5.30%
Utilities Expense	\$ 393,039	\$ 428,636	\$ 435,682	1.64%
Finance Expense	\$ -	\$ -	\$ -	
Other Expenses	\$ 173,418	\$ 158,195	\$ 134,778	-14.80%
TOTAL OPERATING EXPENSES	\$ 4,144,649	\$ 3,985,418	\$ 4,076,064	2.27%
OPERATING INCOME (LOSS)	\$ 902,535	\$ 427,873	\$ 682,645	59.54%
NON-OPERATING REVENUES				
Transfers from City Hotel-Motel Tax	\$ 350,000	\$ 350,000	\$ 225,000	-35.71%
Earnings on Investments	\$ 1,500	\$ 1,758	\$ 10,000	468.83%
Grant - GLRI	\$ -	\$ 40,000	\$ -	
TOTAL NON-OPERATING REVENUES	\$ 351,500	\$ 391,758	\$ 235,000	-40.01%
NON-OPERATING EXPENSES				
Lease/Leaseback Interest Expense	\$ 17,400	\$ 17,013	\$ 8,540	
Interest Expense	\$ 122,743	\$ 113,929	\$ 109,869	-3.56%
Claims and Judgments	\$ -	\$ -	\$ -	
Other Expenses	\$ -	\$ -	\$ -	
TOTAL NON-OPERATING EXPENSES	\$ 140,143	\$ 130,942	\$ 118,409	-9.57%
DEPRECIATION	\$ 500,907	\$ 598,473	\$ 840,000	40.36%
AMORTIZATION	\$ 28,653	\$ 28,408	\$ 30,000	5.60%
NET INCOME (LOSS)	\$ 584,332	\$ 61,808	\$ (70,764)	-214.49%
Sources of Cash				
Estimated Net Income (Loss)	\$ 584,332	\$ 61,808	\$ (70,764)	
Amortization	\$ 28,653	\$ 28,408	\$ 30,000	
Depreciation	\$ 500,907	\$ 598,473	\$ 840,000	
Sale of Equipment - no lease	\$ 20,000	\$ 20,733	\$ 40,000	
Total Sources of Cash	\$ 1,133,892	\$ 709,422	\$ 839,236	
Uses of Cash				
Lease Principal Payments	\$ 564,076	\$ 579,936	\$ 394,711	
Repair and Replacement	\$ 291,500	\$ 350,000	\$ 225,000	
Total Uses of Cash	\$ 855,576	\$ 929,936	\$ 619,711	
Balance Available for Capital Projects	\$ 278,316	\$ (220,514)	\$ 219,525	

Spirit Mountain 2011/2012 Season Recap

Adventure Park

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 became a year round recreation area, as envisioned in the enabling legislation. The Timber Twister vastly exceeded the initial attendance and revenue projections. The new additions of the Timber Flyer Zip Line, 9-Hole Miniature Golf Course and 4-Lane Snowtubing Park during 2011 solidified Spirit Mountain as a force for year round recreational activities. The stand-alone Adventure Park brand has proved to be a popular draw for residents and visitors alike. Attendance and revenue projections continue to be greater than projected, and the coming addition of mountain bike trails, with lift access is eagerly awaited.

Ski and Snowboard Season

The 2011/2012 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 snow conditions were excellent and the winter temperatures very moderate, the complete lack of natural snow in the Midwest and across the lower 48 states had an extremely negative impact on ski resorts, to which Spirit Mountain was not immune. Our weekend traffic is primarily from out of town visitors, most of whom hail from the Twin Cities; the brown back yard syndrome clearly affected our normal weekend visitation, causing the season to be one of the worst we've experienced in some time.

As the season failed to develop, we responded with aggressive cuts to our operating expenses and revamped our winter marketing to stress the excellent snow conditions. With some much needed natural snowfall at the end of February the season showed marked improvement for the weeks leading up to our abrupt closure on March 19, a full 13 days early, due to unusually warm temperatures.

In an effort to ease cash flow concerns following a poor season we've launched an aggressively priced season pass campaign, with passes at an exceptionally low rate of \$139.00 for all buyers. Thus far the promotion has been selling well and bringing in a good number of new passholders.

What has become apparent through several challenging winter seasons is the Adventure Park was a wise investment and our efforts to seek other activities and events to lesson our dependence on a short, four month ski/board season must continue.

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 2011 Spirit Mountain hosted 65 wedding receptions, 71 banquets/corporate events and 47 wedding ceremonies. 2012 will likely meet or exceed the successful 2011 banquet season.

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.

With the new chalet at Grand Avenue and an additional banquet space in the building, we anticipate hosting an increased number of weddings and events in our first full summer of operation in 2013.

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. One positive outcome of the three week state shutdown was an influx of new campers to our campground in lieu of the closed state campgrounds. We also hosted a camping travel writer whose plans changed due to the closure and has since listed Spirit Mountain Campground in his top-ten list of Minnesota Campgrounds, a distinction we had not previously had. As of now our summer advance reservations are up considerably over 2011.



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, which we've reacted to by building the new Adventure Park. 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 Adventure Park.

With the Phase II development of the new express lift, chalet at Grand Avenue and renovated parking lot we will be well on the path to completion of a majority of the significant improvements called for in the Master Plan.

The Grand Avenue chalet is envisioned as a year round venue, not just a winter facility. The bar and restaurant will be open year round and will fill an absence of dining options in the western part of Duluth.

In the summer months we will offer a series of summer youth day camps at the new chalet.

The new lift affords us the opportunity to offer lift access mountain biking, chair lift rides, and access to the Adventure Park from Grand Avenue.

The overwhelming success of the Adventure Park 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 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 nine 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
- ✚ New vestibule entrance
- ✚ Enhanced and improved signage
- ✚ Adventure Park
- ✚ Trail improvements

All these and a myriad of smaller, yet vitally important projects have been done at a cost of more than \$2.5 million dollars in the past nine years. And this figure does not include the recent capital investment made at the Adventure Park, which was an additional \$3 million.

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

With an economic impact to the region of \$37.5 million, the importance of Spirit Mountain as an economic force cannot be over stated.

