



Jim Filby Williams, Director
Property, Parks, and Libraries
City of Duluth, MN

August 25, 2020

RE: Proposal for a Strategic Business Plan

Dear Jim,

SE Group has prepared this proposed scope-of-work for a Strategic Business Plan for Spirit Mountain Recreation Area (SMRA). The study will assist the Spirit Mountain Task Force (Task Force) in developing a set of recommendations to the City of Duluth that will put SMRA on a financially sustainable long-term trajectory. SE Group understands that the primary goal of the Strategic Business Plan is to provide the Task Force with an understanding of the financial implications of addressing deferred maintenance and implementing proposed capital improvements, as well as potential changes to operating assumptions, organizational structure, funding mechanisms, and ownership.

The SE Group team is uniquely qualified to complete the SMRA Strategic Business Plan:

- *We understand the multi-faceted challenges you face in your decision process and have the expertise to address each of these challenges. As respected leaders and “knowledge brokers,” we have an unprecedented depth and breadth of experience in the ski industry.*
- *We understand the “business of skiing,” and we understand that a sustainable business model will likely need to include more than just skiing. We have assisted many areas in developing multi-season operations, to address the industry-wide challenge of creating and maintaining a sustainable business.*
- *We have significant experience working with areas that are similar in size and scope to Spirit Mountain—be they small operations, located in rural/remote areas, and/or are publicly owned. We are familiar with the unique challenges—and opportunities—that arise from these specific situations and operational models.*
- *We have assembled a team to complement our experience, including RRC Associates—national experts in the field of recreation-oriented market research who are frequently quoted and contacted for information concerning trends and opportunities. Their assessment of the opportunities within the market area will provide the foundation for assessing the opportunity for future multi-season operations.*

SE Group recognizes the City of Duluth’s need for an efficient and effective evaluation process. As an added value to our services, we propose to provide the included use of IMPLAN analysis (as described within the scope of work) on a pro bono basis.

We welcome the opportunity to work with the SMRA Task Force on this project. Please contact us if you have any questions or require clarification of any component of our proposal submission.

Sincerely,
SE Group

A handwritten signature in black ink, appearing to read 'K. Sharp'.

Kent Sharp
President/CEO
(970) 390-8880

A handwritten signature in black ink, appearing to read 'CHumber'.

Claire Humber
Director, Resort Planning + Design
(802) 233-3067

SCOPE OF SERVICES

There are two main components to the Strategic Business Plan:

Feasibility Study. This in-depth analysis of the current operations, market conditions and opportunities for future business provides the foundation and validation of all assumptions and recommendations.

Financial Analysis and Implementation Strategy. Pro-forma modeling and breakeven analysis allows for a thorough understanding of the existing operation, testing of various scenarios for capital expenditure, operating parameters, organizational structure, ownership, and funding mechanisms, and determining the optimal phasing for proposed projects and operational adjustments.

Combined, the Strategic Business plan will provide the Task Force with a “road map” for the phased implementation of selected operational and four-season improvements to the recreation area.

The SMRA Task Force has been mandated to deliver a set of recommendations intended to put Spirit Mountain Recreation Area on a financially sustainable long-term trajectory including financing to repair or replace deteriorated infrastructure. As such, this strategic business planning exercise will be collaborative by design and will include a series of video calls with the Task Force as we investigate existing conditions and form opinions regarding future opportunities.

Spirit Mountain Recreation Area: 2017 Master Plan Update

The 2017 Master Plan Update provided “...a blueprint for updating and renovation the alpine ski facility and developing other four-season recreational amenities and activities to support regional tourism and general more year-round use of the property.” The Master Plan creates a vision for the future of SMRA, proposing actions that address the need to repair/replace aging infrastructure, enhance existing revenue streams and generate new sources of revenue, and contribute to the achievement of the facility’s mission. The Master Plan, accepted and embraced by the City of Duluth, will be reference extensively throughout this strategic business planning exercise. We will rely heavily on the comprehensive analysis of the site and existing facilities included in the plan, and the proposed actions will be considered.

That said, it is important to note that the 2017 Master Plan did not include any supporting assessment of the marketplace, nor any financial modeling of the proposed actions. The primary goal of this current strategic planning exercise is to determine financial viability of the SMRA operation; it will be critical that we filter the actions proposed in the 2017 plan through our robust market and financial analysis, and consider other opportunities that arise from our analysis that may not have been considered in the previous planning.

PART 1—FEASIBILITY STUDY

SE Group team will collect and analyze important background data related to the current situation including site conditions, winter and summer operations and SMRA’s regional marketplace. As part of this process we will review the 2017 Master Plan, evaluate the proposed elements of the plan within the context of our analysis findings, and opine on which elements should be incorporated into this strategic business planning exercise.

1. Project Initiation

We will begin this planning exercise with a video conference meeting with the Task Force. Agenda items will include:

- Introductions of the team; roles and responsibilities
- Review of the scope of work, project schedule and milestones
- Review of Spirit Mountain’s mission, vision, and values, and the goals for future operation and development of Spirit Mountain. What will the future look like?
- Review of the 2017 Master Plan
- Discussion of data gathering requests

2. Data Collection and Site Analysis

The data collection and site analysis phase of the project will predominantly involve a review of the site analysis materials compiled as part of the 2017 master planning process.

- Review existing planning, regulatory and resource documents
- Review inventory of existing facilities – ski (lifts/terrain, including documentation related to the on- going maintenance and inspection of the lift infrastructure), daily capacities (summer and winter), guest services, parking, infrastructure, additional activities and associated services), existing and future accommodations and real estate development

We will work with your team to ensure we have everything available that would contribute to our understanding of the site and the existing activities and facilities, as they relate to future winter and summer operations.

3. Market Assessment

The market assessment will consider SMRA as a “local/regional destination” within the bigger context of the regional marketplace. It will also allow for a quantification of potential visitation and will provide greater clarity as to the interests of potential visitors.

Working in conjunction with RRC Associates, we will qualify and quantify the market opportunities for the ski area and multi-season recreation/amenities/ activities. During this task, we will investigate the size and demographic makeup of the SMRA market area, assess the current level of recreational activity within the market, identify existing competing activities, and draw conclusions related to the potential winter and summer visitation opportunities. We will define the existing and potential marketplace and competition. The market assessment will be utilized to validate actions proposed in the 2017 Master Plan, as well as identify other multi-season recreational offerings that may be in demand or that are complementary to other regional recreation centers.

The market assessment will also analyze the winter customer base and present SMRA’s demographic and other skier/snowboarder characteristics in the context of regional and national statistics. Leveraging information from various National Ski Areas Association (NSAA) studies (e.g., NSAA National Demographic Study, Kottke National End of Season Survey, Economic Analysis of United States Ski Areas, etc.), along with any available proprietary customer data, this winter customer analysis will reveal areas of strength and differentiation, as well as opportunities for changes and improvements to the experience at SMRA. Recent market/economic development studies for the surrounding region will also be examined as part of this process.

Trends in market area population growth, coupled with the extent of potential offerings at SMRA when compared to the anticipated growth at competing areas, will provide a foundation for determining future visitation estimates for the market area. This will be used in the Financial Analysis to project potential market share/visitation at SMRA.

4. Case Studies

SE Group will evaluate different ownership and operating structures that may be applicable for SMRA, calling on our team's experience in working with numerous types of ski area business models including ski clubs, non-profits, community-owned, foundations and privately owned.

We will provide case study examples of each type of the operation (cooperative, not-for-profit, for profit), how and why they were formed, operating history, and benefits/issues associated with the operating model. Where appropriate, we will also outline any nuances to different operational structures and employee requirements for each of the case studies and identify the opportunities and challenges of each as they may apply to SMRA. The case studies will focus on ski areas of similar size and market orientation to provide a realistic example of successes, for both the skiing venue and other multi-season recreational offerings.

Additionally, we will provide case studies of management contract management and public/private development partnerships that explore opportunities which may be applicable to SMRA.

Information and data provided through these case studies will be applied during the Financial Modeling and Implementation Strategy process to test various scenarios for future operations at SMRA.

5. Operations Review

As part of this process it is important for us to understand the context of current resort operations and future vision. As part of our analysis, we will investigate:

- **Mission and Vision:** Your mission and long-range vision for the area must be the foundation for any discussions related to on-going summer and winter operations.
- **Facilities, Procedures and Organizational Structure:** We will review the background data on the winter and summer infrastructure (lifts, snowmaking, ski school/rentals, trail networks, multi-season activities, day lodges etc.) and operations provided in the 2017 Master plan. We will also gather all information related to the depth and complexion of the operations team, as well as the financials related to the business enterprise. This information will be factored into our evaluation of the proposed components of the 2017 Master Plan, as well as allow us to develop assumptions during the financial assessment.
- **Benchmark Analysis:** We will also take a "high elevation" look at the past performance of SMRA based upon comparable operations. This benchmarking evaluation will entail the use of the 2019/20 National Ski Areas Association Economic Analysis of United States Ski Areas results to compare SMRA's operational and financial characteristics with similar sized ski areas in the midwestern U.S.
- **Economic Footprint Assessment:** as part of our evaluation of the existing operations, we will utilize an **IMPLAN** analysis to quantify the economic impact that Spirit Mountain presently has on the proximate community in terms of ancillary spending, employment and taxation. This will become a baseline against which to compare the relative "value" of the planning scenarios subsequently developed.

This overview of the existing facilities/infrastructure and benchmarking provides an operational performance “report card” from which we can ask questions about the winter/summer operations and offer recommendations for improvement.

6. Site Visit and Task Force Meeting

As part of our analysis, we will spend two days on-site. During this time, we will tour the facility and meet with the operating team and Task Force with the goal of listening, learning, and discussing initial observations and ideas.

Together we will explore:

- **The Area:** The site, existing buildings, resort amenities, opportunities for recreation and the unique offerings and character of the surrounding region. A “walk/drive-and-talk” tour to see and discuss all the pieces of the puzzle.
- **The Existing Operation:** We have found significant knowledge and “great ideas” often rest within the existing operating staff. No one knows SMRA better than those who have been involved in operating it every day.
- **The Market:** A review of the market assessment, and discussion of how the regional demographics and competitive landscape informs the vision for future development. We will also review past market studies related to development at the resort and any other intel related to customer behavior.
- **The Brand:** How the SMRA brand may be strengthened through future improvements at the area.
- **The Mission and Vision:** The unifying ideas behind future operations.
- **The Program:** Informed by the market assessment and review of the 2017 Master Plan, an initial discussion of the potential opportunities (quantifying [How much?]) and qualifying [Of what elements?]) for future recreation and guest services components.
- **Phasing:** Which components have the highest priority and why.

There is great efficiency in high-intensity, short-duration workshops, and that the collective focus of all team members nets valuable clarity. We will work with you to formalize an agenda for this session, to make the most efficient use of our time together.

7. Evaluation of Opportunities

Utilizing results from the site analysis, market assessment, operations review, and review of the 2017 Master Plan, coupled with our on-site investigations and discussions with the task force, SE Group will evaluate the identified potential changes and/or additions to the existing operations (capital improvements, as well as potential changes to operating assumptions, organizational structure, funding mechanisms and ownership) and determine which should be further assessed through the Financial Analysis and Implementation process. This evaluation will consider several important criteria to help determine operational adjustments and multi-season recreation elements that have the greatest potential for success. These criteria include:

- Suitability of available land for recreation facilities and/or activities
- Operational compatibility with existing facilities
- Findings from market research
- Initial fiscal considerations
- Visitation potential

- Market Appeal (increasing marketability for future acquisition, lease, contract for management and/or public/private partnerships)

8. Task Force Meeting

We will end our Feasibility Study work with a video conference meeting with the Task Force. We will present the results of our evaluation, and begin discussions related to the Financial Analysis and Implementation Strategy.

PART 2—FINANCIAL ANALYSIS AND IMPLEMENTATION STRATEGY

Pro-forma modeling and breakeven analysis allows for testing of various scenarios for capital expenditure, operating parameters, organizational structure, ownership and funding mechanisms, and determining the optimal phasing for proposed projects and operational adjustments. This method of analysis is critical to assisting the Task Force’s mandate of delivering a set of recommendations intended to put Spirit Mountain Recreation Area on a financially sustainable long-term trajectory including financing to repair or replace deteriorated infrastructure.

We envision that our collaboration with the Task Force will consider during this work and will organize a series of video calls as we develop, and refine, the model to confirm assumptions and discuss interim findings.

This task will also our assessment of the impact that the potential changes to operating assumptions, organizational structure, funding mechanisms and ownership of Spirit Mountain will have on the marketability for future acquisition, lease, contract for management and/or public/private partnerships.

As SE Group assesses the overall business metrics and performance for Spirit Mountain and (importantly) prepares concepts/recommendations for how the business plan may be modified to bring the facility into a consistent, standalone breakeven or better position, we will then be able to further evaluate and understand how the facility may be attractive in the broader resort management/ownership/lease, and concession markets. Clearly there are experienced operators/owners looking for further opportunity in ski area markets. However, the attractiveness of Spirit to these various markets will be strongly a function of the outcomes of our proposed business plan work. Assessment of these opportunities will be best placed after the business plan opportunities are understood.

At that time, SE Group will coordinate closely with SMRA to assess and evaluate any additional advisors that may be insightful to assist in the overall evaluation of the resort management/ownership/lease, and concession markets.

9. Financial Analysis and Implementation Strategy

A financial analysis will compare the cost to acquire, construct and operate proposed upgrades to the SMRA operations with expected revenues and operating expenses. The results will be presented in a ten-year financial pro forma analysis that will demonstrate the proposed capital requirements and operating metrics over time. This analysis will be utilized to validate changes to winter and summer operating assumptions as well as all components of multi-season recreation, and determine how the chosen activities, programs and events may be phased over time to achieve the desired economic returns. Key metrics to be evaluated include net operating income, net present value, internal rate of return, maintenance capital requirements, and debt service parameters.

The pro-forma analysis will be augmented by the preparation of a Break-Even Analysis in years 5 and 10 to determine the visitation levels required to meet fixed, variable, and semi-variable operating costs. The combination of the pro-forma and break-even analyses will provide a clear indication as to how SMRA may become an

economically viable and sustainable business enterprise under various operating scenarios (e.g., cooperative, not-for-profit, for-profit enterprise).

This financial analysis will be utilized to develop an Implementation Strategy, to identify the optimal phasing of the projects as well as potential changes to operating assumptions, organizational structure, funding mechanisms and ownership identified in the Strategic Business Plan. The phasing priority for each of the projects will be determined based on an evaluation of the following factors:

- **Financial Performance:** costs, expenses, and return on investment
- **Capacity:** summer and winter recreation, guest services
- **Visitation:** winter and summer
- **Mission and Vision:** contribution to realizing the mission and vision
- **Guest Experience:** contribution to improving the overall experience
- **Market Appeal:** contribution to improving the appeal of Spirit Mountain as a destination and positioning the resort within the marketplace, as well as the appeal of Spirit Mountain for future acquisition, lease, and/or public/private partnerships.
- **Partnership Potential:** future projects that may be implemented as part of a third-party operations agreement
- **Entitlements Outline:** Permitting required prior to implementation
- **Complexity of Project Implementation:** the amount of additional planning, design and coordination required prior to putting the project in the ground
- **Economic Footprint:** similar to the analysis conducted to establish the existing condition baseline, we will use an IMPLAN analysis to quantify the economic impact that the selected strategy will have on the surrounding economy in terms of ancillary spending, employment creation and taxation.

This process assumes the initial development of the financial model, and three refinements based on Implementation Strategy phasing discussions with the Task Force.

10. Presentations

We will present (via video conferencing) the final financial modeling and implementation strategy to the Task Force via video conference. During this final presentation we will discuss next steps in the process and how SE Group may continue to be of service in supporting the Task Force as they continue to advance their process.

We will also present (via video conferencing) the findings of our work to elected officials.

11. Reporting

The results of the Feasibility Study and Financial Analysis and Implementation Strategy will be compiled into one reference Strategic Business Plan document. The document will summarize the findings of our strategic business planning, and outline in detail the analysis steps undertaken to validate the proposed future direction for Spirit Mountain: capital projects as well as potential changes to operating assumptions, organizational structure, funding mechanisms and ownership.

PART 3 – COMMUNITY ENGAGEMENT

We believe creative and continuous public involvement is integral to the success of any future operations at SMRA. Successful public outreach becomes a public dialogue between community members, decision makers and the planning team through in-person events, direct outreach (interviews), or online tools (Community Surveys). We have conducted similar strategies in many community-oriented ski area planning projects. In the end, this leads to a plan that is fully embraced, and therefore implemented and supported, by the community.

As part of the scope above, we will work collaboratively with your team and the Task Force to implement the following Community Engagement Process:

- **Stakeholder Interviews:** With representation from a broad cross section of the community, this step is designed to inform and build consensus about the future direction of SMRA, and to gauge the nature of potential financial support. This may include neighboring businesses, special interest groups, clubs, as well as key management and staff. This could also include focus group discussions. Stakeholder interviews should be conducted at the onset of our study.

We are assuming that SE Group will provide questions; and Task Force members will conduct the interviews and compile the results. The Task Force undertakes all coordination with stakeholders.

- **Public Meeting/Open House:** Getting insight and observations from the broader community is essential to make sure the final plan works for, and will be supported and used by, the community.

We propose two virtual Open House events be scheduled during this process. The first event will occur at the end of Part 1: Feasibility Study. We will present the findings of our initial analysis: the existing site conditions, the depth and complexion of the marketplace, and resulting opportunities for activities/programs/events that could be part of Spirit Mountain's future. The goal is to present "possible" ideas for the future and gauge the community's interest and support. The later will be collected via the Community Survey (see next bullet).

The second virtual Open House will occur at the end of our strategic business planning process, to present the findings to the public.

We are assuming that SE Group will provide examples of notices, compile presentations for the virtual Open House events and participate in the events; the Task Force will organize the event and coordinate promotion/marketing.

- **Community Survey:** An excellent way of identifying existing use patterns, exploring options for additional activities, programs, and events that may occur at SMRA, as well as providing a basis for consensus and, more importantly, support that will serve the final plan well.

In conjunction with the first virtual Open House event, we propose a web-based community survey that seeks input from the greater Duluth area. The goal of the survey is to collect community input with respect to the overall project vision, gauge the level of interest and support for recommendations for activities, programs and events (from the 2017 Master Plan and any additional ideas we develop in response to our analysis findings) at SMRA, and to gauge the potential level of financial support for the operation moving forward. This data will be vital to validating and supporting the findings of the strategic business planning exercise.

We are assuming that SE Group will provide survey questions, conduct the survey and compile a summary of the results. The Task Force will provide the email database and will market/promote participation in the survey.

We will work with the Task Force to clarify the roles and responsibilities for the community engagement component of the Strategic Business Plan and will refine our scope of work and budget as warranted.

PROPOSED PROFESSIONAL FEES

SE Group proposes to complete this proposed scope of work on a time and expense basis with a not-anticipated-to-exceed maximum of \$70,000 for professional fees and approximately \$4,000 for direct project related expenses (travel, printing). Our fees and expenses are inclusive of the specialty involvement of RRC Associates (market research) and acquisition of necessary IMPLAN locality data.