Exhibit B

spirit mountain

FY25 Budget Overview

for the Duluth City Council
April 8, 2024

Context:

Spirit Mountain Recreation Area will begin its FY25 fiscal year May 1 after the warmest winter on record drastically affected attendance at a time when the resort normally would generate more than half its operating revenue for the year.

Spirit managed this significant financial challenge internally, moving quickly and consistently starting in mid-December to adjust revenue expectations and reduce spending to reflect the anticipated impacts of the rainy, warm weather. Operating cash remains available at the end of the fiscal year to cover start-up of summer operations.

While the winter season presented challenges, Spirit had some financial successes in FY24. It made the final $100,000 payment to retire completely a $1.2 million City revolving loan on the books since 2014 through a debt forgiveness plan that saw Spirit invest $900,000 in approved capital projects in the city-owned facility and make three, $100,000 payments over three years. Spirit completed its capital investment obligation a year early.

It continued making capital improvements and investing in equipment, the most notable (and perhaps exciting) being $170,000 in LED ballasts to replace lighting on the hill and throughout the campus. While the ballasts arrived too late in the year to be installed throughout, once they're fully installed Spirit will be able to apply for a substantial rebate from Minnesota Power. The City's energy coordinator, who was of great assistance in this purchase, estimated the rebate and the anticipated energy savings should result in recouping the cost of the bulbs within seven years.

Additionally, with a $90,000 investment in downhill equipment and mountain bikes, Spirit essentially completed the turnover of its rental fleet after three years of sustained investment, replacing some equipment that was more than 10 years old. Adequate rental equipment is necessary to ensure Spirit continues serving beginning skiers and boarders who will make up Spirit's future attendance.

As shared previously with the Council, the April 30 end of Spirit's fiscal year requires development of the budget plan in the middle of what should be its highest revenue-generating season. Given the inherent uncertainty predicting revenues in a volatile, weather-dependent industry, management must use conservative budgeting principles when creating a budget plan.

Budget Management:

The best budget is only a plan. As this year's winter weather demonstrates, regularly adjusting the plan based on conditions is critical. To this end, Spirit tracks cash projections weekly. The cash projection tool starts the fiscal year with budgeted revenues, expenses and planned capital investments; we enter actuals weekly. The tool allows management to see our cash position weekly throughout the year, providing:

- A complete picture of total spending (operating and capital) and its impact on cash;
- Pinch points that might arise due to timing or unanticipated events, allowing us to adjust in the present to avoid running short of cash at a specific time in the future, and
- An early warning when the spending/revenue-generating trajectory will lead to a shortfall at year end, giving management time make operational changes, as we did multiple times this year.

Management uses this tool regularly. In the current fiscal year, we began in mid-December to adjust anticipated revenue and spending plans for the remainder of the year based on weather impacts before and during the holidays; we made additional adjustments again in February. The tool also guided more recent plans to make yet further reductions. This has allowed us to manage an extremely significant reduction in budgeted revenue.

Budget Planning:

Guided by the Spirit Mountain Task Force report, the Strategic Business Plan developed by SE Group in 2021 an Updated Strategic Business Plan in 2024, Spirit has three over-arching goals:

- Increase net revenue to improve long-range sustainability
- Enhance Spirit's brand and reputation as a year 'round resort
- Refine operations to support guest service and improve profitability

Prior to developing departmental budgets, directors and/or managers create operating plans to realize these goals via department-specific goals, strategies, measures of success and timelines. After leadership approves plans, managers and directors develop budgets to implement them, ensuring alignment among plans and budgets.

Budgeting Principles:

- **Conservative Revenue Estimates**: For the last few years, Spirit intentionally has been conservative estimating revenue—while striving to exceed revenue targets.

- **Realistic Expense Estimates:** Conversely, Spirit tries to budget for all anticipated expenses using historic and other performance data, adds a cushion for uncertainty, and works to keep expenses under budgeted amounts.

Budget Preparation:

Given that Spirit must develop its budget during its highest revenue-generating period, management uses experience from prior years' performance, current year-to-date revenues as compared to prior year-to-date revenues, and other indicators to develop a plan for revenue generation and spending. These are explained below.

Revenue Assumptions:

Overall, Spirit projects a 5% gross revenue increase, or about $352,000, over FY23 actual revenue, a very modest projected increase for a two-year timespan.

- **Season Pass Revenue:** One of Spirit's two largest sources of revenue, FY25 winter season pass sales are budgeted to increase about 9% or $140,000 over FY23 totals—a two-year timespan. This is conservative because season pass revenue since FY20 has increased an average of 9% each year. (Excluding FY22, which was an exceptionally good year for skiing nationwide, season pass sales have increased an average of 5.5% per year since FY20.)

- **Lift Ticket Revenue:** Predicting Spirit's other largest source of revenue is more challenging because it can be influenced by weather, as was seen this year. For FY25, we estimate lift ticket revenues will be about 8% higher than FY23 actuals; this is conservative because lift ticket revenue has increased, on average, 13% each year since FY20. (Excluding FY22, which was an exceptionally good year for the industry nationwide, lift ticket revenue has increased an average of 6.5% annually.)

- **Food/Beverage Revenues:** Banquet revenues reflect events currently on the calendar for May through October; revenues from retail food/beverage operations reflect modest increases over FY23 actuals.

- **Programming and Rental:** These two items go hand-in-hand, as school and other groups that engage in winter programming tend to include rentals in their visit. Budgeted numbers reflect a modest 5% increase over FY23 actuals.

Expense Assumptions:

Spirit tries to anticipate and budget all expenses – factoring in price hikes in utilities, fuel and other expenses and using historic and performance data to incorporate "emergency" repairs into expenses.

- **Wages/Benefits:** This line item reflects staffing for a seven-day-a-week winter season (up one day from the current fiscal year) and estimated wages and benefits.

- **Utilities:** This reflects a 9% increase to account for Minnesota Power's proposed rate increase.

- **Other Expenses:** This line item reflects some significant anticipated rebuilding of some pumps and the replacement of a snowmaking line.

- **Cost of Goods:** On the food/beverage side, the cost of goods has stabilized, although we continue to work to improve our margins. This line item also includes credit card commissions and the fee we pay on sales to our point-of-sale vendor.

Planning for Capital Investments in FY25:

For the last several years, Spirit used its current year tourism tax appropriation and a large portion of its *prior fiscal year* operating profit for capital investments in the current fiscal year. This is a conservative approach that ensures capital investments are paid for with dollars already in the bank, rather than betting on current fiscal year revenues that may/may not be sufficient.

Given the impact of the warm, rainy winter, Spirit does not anticipate much operating profit, and, therefore, capital spending will be limited. We will update our 10-year capital investment plan accordingly.

Looking Ahead:

Increasing per-skier/user revenues: Spirit continues to focus on increasing revenues as the primary means of ensuring our long-term sustainability; overall expenses already are extremely modest when compared to our peer resorts in the Midwest, coming in at less than 40% of others.

The SE Group's Updated 2024 Strategic Business Plan made several pricing recommendations, which Spirit has undertaken, including right-pricing for its season passes and lift tickets, continuing to reduce discounts and reassessing free/reduced passes.

(Spirit provides vastly discounted ticket, lesson and rental packages to more than 5,000 people annually—primarily children—through three school programs, Spirit ♥ Duluth, Share the Shred and scholarships. These discounts reflect a savings of $500,000+ for participants compared to full-price.)

Food and Beverage: Spirit is working on multiple fronts to increase profit from food and beverage sales: Ensuring a quality, tasty product; pricing appropriately, and trying to drive down the cost of goods. We are showing improvement year-over-year in our retail operations. Banquet revenue for FY25 is based on the number of weddings booked for the spring/summer/fall. Because wedding plans generally are made more than a year in advance, uncertainty about when any construction/demolition might begin at the Skyline Chalet limited the number of bookings we made for this year.

Rental Revenue: Spirit completed the final year of a three-year effort to overhaul our dated rental fleet. Revenues continue to rise steadily and reflect the health of our group sales to school groups and others. The addition of a part-time group salesperson for the coming fiscal year likely will drive up non-school group use, which also should increase rental revenue.

Winter Programming: Winter programming remains quite popular with school groups that take advantage of extremely modest prices for a lesson/rental/ticket package. A solid – but not huge – source of revenue, these programs represent significant investment in our future customers, as well as demonstrating Spirit's desire to make our (expensive) sport more financially accessible. Despite the tumultuous weather in 2024, we had strong demand for school groups and had to turn some away for lack of space on the schedule.

Summer Programming: Interest in Spirit summer camps – mountain biking programs and an outdoors adventure camp – continues to remain strong. Our mountain biking programs serve children ages 2 to 15 and provide a solid foundation for a lifelong enjoyment of the support. In addition, this summer we plan to add more private lessons and adult-themed camps to broaden our revenue base.