

Duluth City Council  
City Hall 411 W. 1st Street  
Duluth, MN 55802  
August 10, 2015

President Larson, Council members,

I was compelled to speak at the Council meeting tonight after hearing concern about the prudence of providing financial support to Spirit Mountain. When I heard about your heavy agenda, I decided you might prefer a letter to my taking up your precious time to address you during the meeting. So, I am sending you a copy of the comments I would have made. Thank you for taking the time to read them.

I wanted to share with you the benefit of my experience over the past 28 years after serving 12 years on the Duluth City Council, 9 years in the Minnesota Senate, 4 years as Lt. Governor and maintaining a clinical psychology practice for 30 years. I planned to be here tonight to support the resolution granting Spirit Mountain an operating subsidy from the Tourism Tax fund.

I feel compelled to share some perspective on Duluth's transformation over the past 40 years because, quite frankly, I've lived through it. Some of you may know the history I'm about to share with you, but I think it's an amazing success story and worth a review.

We have come from a smokestack community to one that shares high academics, including the UMD medical school; Cirrus, AAR and the 148th Fighter Wing; AimClear and so many entrepreneurial internet companies; Bent Paddle, Lake Superior Brewing and many craft beer operations; Loll and Ikonix, highlighting our manufacturing sector; a state of the art health care industry, and; now the new Maurice's headquarters in the heart of downtown. I was here when the cement plant, US Steel, the Air Force Base and Jenos food processing plant closed and the infamous sign went up on I-35 heading south stating, "Will the last person leaving town please turn out the lights."

At that time Duluth was in crisis and many dedicated and committed public and private community leaders were extremely concerned about the future of Duluth. They came together to develop a vision and, with the investment of several hundred million dollars from the government and the private sector, they created the foundation for what Duluth has become today. Now, I've glossed over this piece, but it was a very thoughtful and deliberate process.

A key to that strategy was to embrace our natural resources and to market Duluth as a destination location. It started with building the DECC and subsequently its several expansions to bring in conventions, trade shows, and entertainment venues. The DECC was built knowing it would need a city subsidy for operations and capital investment. City leaders worked with lawmakers to pass legislation dedicating a set subsidy (65% of 95% of the 3% hotel/motel tax) from tourism taxes to support the DECC and it has been worth every penny. In recent years, the DECC has been acknowledged in multiple publications and been awarded many titles for being at the top of its field for entertainment complexes of its size. It is a tremendous draw for the region and in high demand with some annual conventions booking out 20 years in order to insure that they can access the amenities at the DECC.

Next in 1975, Spirit Mountain was created to boost Duluth's tourism industry with a year-round component. It took advantage of the expanding ski industry and became our first recreational tourism demographic bringing much needed weekend winter visitors to our city. When it was created, city leaders knew that it would require a subsidy from our tourism taxes and, at that time, Spirit Mountain received approximately 30% of the tourism taxes collected as well as receiving additional support from City financed capital infrastructure bonding paid for through the first Minnesota city sales tax. When those bonds were finally paid off in the first decade of this century, the legislature allowed the city to permanently keep the 1% sales tax. You should feel grateful to be allowed to have a city sales tax, the largest in state history, with which to meet your many financial obligations, but you also have a fiduciary responsibility that accompanies that to see to it that you adequately care for and maintain the assets the state has so generously allowed you to create.

More recently, because of many dedicated city leaders and their belief in Duluth, we have seen several DECC expansions, such as the new Amsoil Arena, the Great Lakes Aquarium, Lakewalk, Bayfront Festival Park, the North Shore Scenic Railroad, Glensheen historic mansion, the Depot, the Rose Garden and Leif Erikson Park, to name a few among our many parks and many other attractions created and paid for primarily by tourism taxes paid by our visitors. And here is the key point, all of these amenities just listed are available for Duluthians to enjoy without one dollar of property tax support. We have created a quality of life for us as Duluthians that rivals any city in the US and this quality of life is financed by our visitors. In addition, while in Duluth, these visitors pay general sales taxes that go to the City's General Fund which has an effect that lowers an average property tax bill by about \$400. Tourism has been one of Duluth's biggest recipes for success. Tourism taxes are self-generated. Without our great attractions that bring people here and help create the demand that drives the buildout of hotels and restaurants in Canal Park and retail Downtown and at the Mall, we wouldn't have tourism taxes generated in the amounts we do now. The four hotels under construction, including the LaQuinta that just opened, will create another

\$500,000 in tourism taxes further increasing our capacity to generate new visitors for Duluth. But visitors won't come unless they have venues to attract them.

Several years ago, Renee Mattson, the Executive Director who had gifted political skills along with widespread support from many citizen groups, the Mayor, the City Council, and our state legislators, including myself, embraced a new master plan and efforts were made by all to bring that into reality. As a destination, Duluth needs a new attraction every five years to bring repeat visitors back to Duluth. The new Alpine Coaster, Zip Line and Lift, and several national class mountain bike trails promised to be just that. Prior to these being built, the Edge Waterpark that opened in 2005 and the Great Lakes Aquarium that opened in 2000 were the last attractions built to bring new life for Duluth's repeat visitors. The Master Plan also was created to form a cornerstone to the new Grand Avenue Corridor plan, which now is underway and bringing long overdue, promised development to this portion of Duluth.

When the Alpine Coaster, Zip Line and new Grand Avenue Chalet were built, the projections didn't quite work out as planned. Fortunately for our visitors and Duluthians, they are now built and available for everyone. If you don't know the story or don't remember, the DECC, the Depot, Glensheen, the Great Lakes Aquarium, the North Shore Scenic Railroad and even Bayfront Festival Park's original projections didn't work out as planned and these entities are still evolving annually to be more self-sustaining and supported by their own operations and self-generated tourism taxes. And yet they remain assets for the community because they still bring new and repeat tourists to Duluth to help keep property taxes down.

Last year, the Spirit Mountain Board went on a national search and found an excellent new director with Brandy Ream. She comes from the private sector and knows exactly what is needed to operate a private sector ski and summer operation. I understand she walked into the operations with no funds to make payroll and the operation was bleeding cash. She has had to make some very difficult but courageous decisions and put a team together that has reviewed every element to make a more successful operation. In April and May this year, she and the entire team took pay cuts to preserve cash flow as long as possible before asking for help. I am not aware of any city operation ever doing that but this is done in the private sector frequently when needed. Unfortunately, we need to be realists, she now has controls on all expenses, but she cannot control the weather which controls revenues to a major extent. I applaud the effort of the City to support her and the board in this difficult process and agree that this turnaround will occur, but it will not happen overnight. You may not be aware that the IRRRB provides Giants Ridge, Spirit Mountain's closest competitor, with an annual subsidy that has amounted to an average of \$3,275,000 in each of the past four years.

There are some who ask a legitimate question of whether Spirit Mountain should be sold to a private operator and what steps are necessary for that to occur. From what I understand Brandy Reams is transitioning Spirit Mountain to operate as a private sector destination because she has done exactly that for 15 years. If the facility were sold, would it be marketable if there was a condition that it remain a ski hill or would it need to be free of encumbrances so it could turn into a high end residential development? How would that change the dynamics of our year round tourism? If it were sold as a ski hill, would a private owner operator be able to make it more successful by instilling different private sector approaches but also paying higher private sector interest rates, property taxes and an appropriate ROI to its investors? Nothing that we have to pay now.

Simply put Spirit Mountain was built as an attraction to provide a year round component to our destination resort community. It was always intended to receive some form of tourism tax subsidy to offset operations and pay for capital infrastructure. This understanding and commitment was not always followed by other administrations but support has gotten better in recent years. Spirit Mountain is part of a bigger equation called tourism and has been a recipe for Duluth's success that cannot be ignored. Without Spirit Mountain and our other tourist attractions, I wonder if we would still enjoy the same quality of life, the same legislative support for UMD and the medical school, whether Cirrus would have located here, or if Maurice's would have decided to build its corporate offices in downtown Duluth. Would we be considered #1 by Outside Magazine without the great skiing, boarding and national class mountain bike trails we now have? Let's take a long term approach with Spirit Mountain and understand how it was built, the support that was always intended it would need, and help Brandy Ream, her team and its board finish what was started.

Thank you for your time and consideration.

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