Exhibit B

spirit mountain

DULUTH CITY COUNCIL
FY26 BUDGET MEMO
4.14.25

CONTEXT:

The Spirit Mountain Recreation Area enhances our quality of life, attracts visitors and contributes to the Duluth economy: It also is a complex business! Making snow, grooming 20+ runs nightly, safely operating chairlifts and maintaining a large campus with aging infrastructure is expensive, while our bottom-line is at the mercy of weather over which we have no control.

Therefore, Spirit is conservative when developing a budget. Revenue projections are realistic and achievable. While we work diligently to exceed budgeted revenue, Spirit does not inflate revenue estimates to balance our budget.

We budget expenses based on departmental operation plans and past performance, being mindful to account for aging infrastructure. We budget optimal staffing levels but do not always staff to them, adjusting staffing levels based on revenue trends and in-the-moment considerations.

Our goal is to ensure our budget covers anticipated operational expenses through realistic revenue projections; if we anticipate a shortfall, we adjust plans to reduce budgeted expenses.

Consequently, our budgeted FY26 operating profit is small. However, except for last year's "winter-that-wasn't" and its devastating impacts, Spirit has exceeded revenue targets since FY21 and ended most recent fiscal years with an operating profit that we combine with our tourism tax appropriation to cover capital investments and repairs. The following table provides a high-level overview of our operating budget, which does NOT include City tourism tax appropriations:

	FY26	FY25	FY24	FY24	FY23	FY23	FY22	FY22	FY21
	Proposed	BUDGET	ACTUAL	BUDGET	ACTUAL	BUDGET	ACTUAL	BUDGET	ACTUAL
Revenue	$6,649,229	$6,888,000	**$5,401,392**	$6,308,606	**$6,535,250**	$6,079,136	**$6,122,734**	$5,233,586	**$3,455,291**
Cost of Goods	($543,749)	($695,392)	**($572,691)**	($604,186)	**($744,144)**	($445,188)	**($547,111)**	($363,081)	**($181,946)**
Gross Margin	$6,105,460	$6,192,608	**$4,828,701**	$5,704,420	**$5,791,107**	$5,633,948	**$5,575,623**	$4,870,505	**$3,273,344**
Wages/Benefits	($4,034,828)	($3,887,414)	**($3,235,177**	($3,953,204)	**($3,453,446)**	($3,727,883)	**($2,881,243)**	($3,170,332)	**($1,757,609)**
Expenses	($2,057,008)	($2,229,190)	**($1,686,120**	($1,731,340)	**($1,920,406)**	($1,838,217)	**($1,657,530)**	($1,634,695)	**($1,171,261)**
Operating Profit	$13,623	$76,004	**($92,596)**	$19,876	**$417,255**	$67,848	**$1,036,849**	$65,476	**$344,473**

FY26 REVENUES:

Spirit reduced total revenue projections for FY26 compared to FY25, as discussed below.

Season pass and lift ticket sales are our two largest sources of revenue, representing slightly more than half of our total revenue. For FY26, we did not increase **season pass** prices, but our revenue target is an

11% increase over our FY25 target, which we exceeded. We plan to realize this increase through an enhanced marketing effort that began with the start of this year's pass sale.

Lift ticket sales are more volatile—affected by weather, economic news, etc. For example, this season, two days of rain over winter break, frigid temps over MLK weekend that forced us to close MLK Monday, and very cold weather during Presidents' Day weekend reduced attendance and revenue for those days by 30% compared to prior years. For FY26, we budgeted 13% less lift ticket revenue than budgeted for FY25, bringing anticipated sales closer to FY23 actuals. We intend to surpass this modest target by increasing marketing spend and activity throughout the year to increase lift ticket sales, which drive performance for Ski School, Rentals, Retail and Food and Beverage.

Adventure Park budgeted revenue is consistent with FY25 actuals, which exceeded budget amounts by more than 20%, while all other revenue targets reflect modest growth over past performance.

Of note in FY26 is the small contribution to our gross margin from banquets, which have been a solid performer since 2022. Because couples plan weddings a year-plus in advance, uncertainty about the timing of the chalet project made it difficult to sell wedding receptions for Summer 2025, resulting in an estimated $200,000 hit to a traditionally lucrative summer revenue source.

Also of note for FY26 is that we've included a budget for Snocross, which reflects our overall revenue, COGs and expenses from the event held in April 2024, which yielded a profit of about $48,000.

COST OF GOODS:

Credit card commissions include credit card fees of about 2.9% and fees from our point-of-sale provider at 1.75%. Our Food and Beverage team continues to winnow the cost of food and liquor while maintaining a quality final product, a delicate balancing act as prices fluctuate.

SALARIES AND WAGES:

The current contract we have with AFSCME includes a 3% increase for union employees effective July 1, 2025; the prior contract year included a 3.5% increase from the prior contract.

OTHER EXPENSES:

We combed departmental budgets to identify cost savings in this budget and are confident we have a tight but achievable expense budget. For FY26, our largest expense will be utilities, particularly electricity, maintaining aging infrastructure and the increasing cost of diesel, which was $90,000+ in FY25 – a total that has been growing steadily over the last few years and represents about 17% of our utilities budget.

In 2021 and 2024, the SE Group benchmarked Spirit's performance with a group of similar-sized resorts in the Midwest. In both analyses, Spirit out-performed our cohort group in controlling expenses – spending less than half of comparable resorts on a per visitor basis.