



## **FY23 Budget Overview**

April 11, 2022

### **Summary:**

Developing a budget in “normal” times is, at best, settling on a set of educated guesses based on past experience and what can be reasonably assumed about the future. Developing a budget after operating two years in pandemic mode adds another type of uncertainty.

Spirit Mountain is becoming more financially stable. Over the last 18 months, after receiving a post-closure start-up grant from the City of Duluth in September 2020, Spirit has been extremely conservative in its spending and also has outperformed revenue expectations significantly. In addition, Spirit has taken additional steps to improve its financial health, creating a modest savings account of \$125,000 and reducing the balance due on an 8-year-old line of credit by more than 40% through a debt forgiveness plan recommended by the Spirit Mountain Task Force and supported by the administration and council.

While this steady performance is a benefit as we move into FY23, the next year remains uncertain: The global economy’s slow emergence from the pandemic, widespread and historic workforce changes, the rapid rise of inflation and the first few weeks of a war in Ukraine all will have unpredictable impacts on both the economy and Spirit’s performance.

To guard against these uncertainties, Spirit has adhered to the same approach that guided the FY21 reopening budget and FY22 budget – being conservative but realistic.

- We don’t over-estimate revenues nor do we underestimate them by so much that we hamper operations.
- We estimate expenses based on what we believe will be needed but remain very careful about spending throughout the year; we don’t just spend it because it’s been budgeted.

### **BUDGET PREPARATION:**

Ensuring that the budget is prepared in time for approval by both the Spirit Mountain Recreation Area Authority Board of Directors and the City Council before the start of a new fiscal year May 1 means assumptions must be developed in the middle of the season that generates the most revenue and expense, before final performance is known. For example, certain winter revenue assumptions, including lift tickets and season passes, were determined by applying planned price increases to year-to-date revenues as of December 2021. What follows is intended to describe further the assumptions used in developing the FY23 revenues and expenses.

### **Revenue Assumptions:**

During FY22, Spirit was very conservative budgeting revenue and exceeded targets; we had a similar experience in FY21 with our reopening budget. This budget maintains a conservative approach, albeit a bit less conservative than in the last fiscal year.

#### **Season Pass Revenue:**

Season pass prices will be increased by 5% in FY23 over FY22 prices; this is anticipated to increase season pass revenues by the same 5%. This is realistic and still conservative because:

- Season pass revenues have increased, on average, 5% over the last decade.
- Season pass revenues have increased, on average, 12% annually over last six years.

#### **Lift Ticket/Adventure Park Revenue:**

Day tickets, whether for lifts or the Adventure Park, are more elastic than season passes and far more influenced by weather and other factors. The budget assumes an average 6.25% increase over FY22 revenue levels, which is both conservative and realistic because:

- Annual lift ticket revenues have increased 6.2%, on average, over the last decade.
- Annual lift ticket revenues have increased 9%, on average, over the last five years.

#### **Camp, Lesson and Rental Revenues:**

All revenue assumptions reflect 5% price increases over FY22 prices, consistent with the anticipated increase in prices and revenues for season pass sales.

#### **Food/Beverage Revenue:**

Banquet revenue was derived from multiplying the number of events currently booked by the average revenue per event in FY22.

Food/beverage revenue at our retail outlets reflects a 12% increase, which is directly related to price increases stemming from concerns about inflation. We believe this is sustainable because guests at a resort expect to pay a 10% to 15% premium; however, because Spirit is in an urban area where guests have other choices, we've compared our prices with area restaurants to ensure we don't price ourselves out of sales and settled on the conservative side of the range.

### **Expense Assumptions:**

#### **Wages/Benefits:**

The wages/benefit line has increased because we've added some positions and anticipate modest increases in wages and benefits.

#### **Utilities:**

Minnesota Power is pursuing a 14% rate increase for non-residential customers. We have included that price increase in our expense budgeting. We will continue to work with the utility and others to reduce energy consumption.

#### **Fuel:**

Diesel has jumped 60 percent since February 2021, and we have budgeted for continued increases, especially because of the unknown impact of the war in the Ukraine on fuel prices long-term.

#### **Food/Beverage:**

We anticipate increases in both cost of goods and cost of labor and will be working to keep these within industry standards as a percentage of revenues.