

Incline Village General Improvement District Steering Committee on the Diamond Peak Master Plan

Monday, March 9, 2015

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Welcome/recap of prior meeting – Deborah Prout

Presentation: State of the ski industry by Tim Cohee

Tim said it's been a tough winter, he has read all the documents, and that he would like to talk about what's happening around the United States. Two things addressed: Summer and size of resort. Most popular phrase is 'dead assets.' There are millions of dollars in infrastructure in lifts, housing, parking lots, etc. and why are they sitting empty. Someone said we should do something about that. Resorts have been generating revenue during the summer for over a decade. China Peak was purchased in 2010 and used to be closed in the summer. Now, it generates \$800,000 in summer; \$300,000 in cash flow. It is not a huge operation. Weddings have been profitable. The philosophical debate: Should ski resorts operate in summer. He said he doesn't have an opinion but it's a no brainer because at some point, financially, it makes sense. Kirkwood market is too far away therefore summer operations didn't do well. There is a capital investment strategy that makes money and everyone is doing it. There are some resorts that are very profitable during the summer. The alpine coaster at Park City Utah was very successful. Heavenly is spending money on their summer attractions. Northstar and Heavenly will have their own customers; there will be no competition. Conversion rates might be too high. It's a profit making business. Tim said there isn't a ski resort operator that wouldn't agree with the profitability of summer operation. Ten years ago, the most expensive ski resort and cheapest ski resort were within dollars of each other; now the margins are increasing. Vail and Powder Corp. said there is healthy customer business stratification that they are taking advantage of. His ski area is a single site market, a single customer group. Keeping the costs low makes sense for DP because they are in the market. People are already here. Diamond Peak is getting 6% of people in the market – there is space in the market to operate at under \$80 a day with a view of the lake and with some improvements. It's a diamond in the rough. Snowflake Lodge is a cash cow. Food and beverage make a lot of money. DP is under lifted for beginners. The lift on the backside is a game changer with new terrain added with minimal construction. It will add a new dimension. When resorts of this size provide something for everyone, it's a guarantee winner.

Eric Severance asked about summer operations having a fad affect especially when there is a certain percentage of local population; he asked about the sustainability and growth of attractions. Tim said those resorts that are doing well are those in destination markets. People are churning through which is critically important; these attractions are incredible. People are paying for them. The attractions must be fun. Tim said he opened the beginner area based on the amount of people walking around; the summer customers are numb about price. Winter customer is paying close attention. Summer customer is looking for something to do.

Bill Echols asked about how China Peak got the \$300K cash flow and if that was with small investments. Tim said they had an asset sitting there and we didn't have much at all. We are located from 60 miles from the central valley. Lifts are used for scenic views, disc golf, and mountain biking. He said they didn't spend \$500K in investments.

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Al O'Connor asked how much the hotel and restaurant produces in revenue. Tim said 25%. Weddings are a monster. Makes 20% margin on that but it's the lift that we make the money on.

Robert Olmer asked about the type of lift used? Tim said they use fixed; we have to stop the lift to get people off. It limits the capacity. It takes several hours to get people up there. Detachable is the only way to go but can't afford it. It takes about an hour to get everyone up there. Tim said they use buses to get everyone up there. There are shifts for the wedding (lift brings them down at noon and 5pm). We can only do two wedding services in one day.

Al O'Connor said the summer industry numbers is only 10% of winter numbers. It's a small number compared to total number of the resort. Tim responded that if you could get \$300K back in your pocket, you would do it. Tim said China Peak doesn't have visitors. Their clients are coming to China Peak for a purpose. 10% of summer operation is a fraction.

Bill Echols talked about capital markets. Every market gets over supplied. He said he is confused about over supply here in the basin. Tim said he was referring to everyone who can do summer operation are doing it. Bill Echols then asked about Mt. Rose. Tim and Kent said no, they aren't near the lake. People won't stop there for summer operations.

Presentation: Kent Sharp – SE Group

Kent spoke about mountain resorts and summer activities and that they can be classified into two categories: attraction vs. amenity. An attraction is Lake Tahoe. It's something that attracts people. Amenities and activities are things like an alpine coaster. Some of the activities aren't large enough to be an attraction – "let's go to Lake Tahoe, not let's go to Diamond Peak for activities". People come once they are already here because they have heard about activities at DP. Breckenridge isn't even considered an attraction rather it's a collection of activities. DP isn't competing with Heavenly, Northstar, and/or Squaw. Diamond Peak is providing activities for those here in Incline. You could get some overlap; it's not a problem.

Visitation expectations:

Data point: Boler Mountain Challenge course – Ontario, Canada

	<u>Boler mountain SE group 2011 projections</u>	<u>Boler Mountain actual 2013</u>
Visitation:	10,800	12,000
Revenue	\$432,000	\$500K
Daily visitation	80	100-200

Municipally owned;

Proforma is similar to DP's. We exceeded visitation, revenue, daily visitation projections. We are being conservative with projections.

Gunstock Mountain Resort, New Hampshire:

Actual visitation/revenue

Diamond peak anticipated visitation/rev

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Zip (canopy) tour:	11,400/\$966,530	9,450/\$945,000
Aerial tree-top tour	6,228/\$257,725	6,300/\$283,500
Chair lift rides only	7,200	5,250/\$42,000
Segway	1,400/\$103,093	2,016/\$55,000
Operating days	100	105
Overall operating margin	51%	65%-51%

Cranmore Mountain Resort – New Hampshire:

Alpine coaster (summer only)	74,935 visitation	50,400 DP anticipated visitation
Aerial adventure	7,800	6,300
Segway	1044	2,016

(uses mtn. advance pass ticketing)

XXX mountain – Canada (eastern Canada)

	XXX mt. visitation	DP anticipated visitation
Alpine coaster (summer only)	79,019	50,400
alpine coaster (winter only)	29,203	11,500
segway tour	2,400	2,016

US Mountain West in Rockies

	visitation/revenue	
Alpine coaster (summer)	97,991 (1.6million)	50,400/\$604,800
Segway tour	675/\$37,566	2,016/\$55,000
Climbing wall	9,679/\$94,950	4,032/\$60,480

Segway are built for mountain tours; Kent said they are more fun than expected.

Industry wide data

NSAA summer revenue detail:

	Rocky mountain		pacific south		total
	2012/13	2013/14	2012/13	2013/14	average
Mt Bike					
Zips/canopy tour					
Alpine slide/coaster					
Chairlift rides					
Other attractions					
Retail F&B					
Other summer rev					

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Total summer rev \$814K \$852 \$508K \$452K
Ski Apache made \$12K in revenue on their first day

Summer Activities or amenities offered:

- 84% said they had summer activities
- Alpine slide – fiberglass track; alpine coaster is more interesting than Alpine slide. Coaster is on rails; the cart is locked in; go faster; you can charge more.
- Data shows the alpine slide.

Has summer met your ROI expectations?

- 75% said yes, exceeded or met it.
- 25% said no

Average per person per day spent by level of satisfaction with ROI:

- \$121 – yes, exceeded our expectations
- \$88 yes, met our expectations
- \$39, no have not met our expectations

Amenities that have been successful:

Average rating of amenity's financial success:

Alpine slide

Mountain coaster

Zipline/canopy tour'

Challenge course

Weddings

Bungee

Scenic lift rides

Climbing wall

Adventure races

Mini golf

Festivals

Downhill mountain biking

Golf

Hiking

Biking

Disc golf

Geocaching

Kent said it would surprise him if Northstar made money on mountain biking. Whistler is a destination; Angel Fire is a destination.

7 year winter index:

- If we assume 07/08 high water mark for winter rates
- 13/14 winter – break even with high-water mark from 07-08

Steve Pulver asked about economic data; we are worried about traffic and noise; we aren't worried about making money. The people are worried about it being so successful that it can't handle the noise and traffic. Kent said there are typically 4 people per car; more people in cars in the summer. The winter, 2.5 hour egress window in the morning and want to leave at the same time in the afternoon. People don't ski as long as they used to. In the summer, 2-4 hours stay, varying throughout the day. They will arrive later in the day, and stay for a shorter duration. He addressed the noise topic; he said they have looked at where the focal point is; where is the hub of activity. Snowflake Lodge will be the hub. Brad Wilson said a traffic and noise specialist can be brought in to talk to this group. Kent said none of these activities make too much noise; if the kids were screaming, that is the loudest noise. Rock and roll festivals are what attract a lot of people.

Bill Echols asked, if Snowflake Lodge is the hub, will there a strain in revenue because you would have to run the lift slow if you don't have the structure in place - it's phase 2. Kent said there are two types of summer users. Summer scenic chair rides, fixed grip is ok. For a wedding group, a lot of people aren't wearing proper shoes and we have to slow down the lifts. Ideally, we would like a detachable lifts. Mr. Echols then asked about running a trolley service. Kent said there would be some van service for those who can't ride the lift. Kent said the road is in excellent conditions.

Robert Olmer asked about weddings. Kent said conservatively they do 30 weddings in a summer. Tim said they do 38 in a summer. Kent said there are some limitations. The lights have to be out at a certain time. Brad said they didn't project weddings at night only during the day. Robert asked if the lodges are being utilized during the summer. Steve Pinkerton said they are being used quite a bit. Bruce said the two lodges to do weddings. Robert said he would like the stats; we could be competing with ourselves. Kent said it depends on the prices. Bruce said the price has determined it in the past - \$10K for a wedding at the top. Kent said a simple operation in Colorado gets \$12K per venue fee for the wedding.

Al O'Connor asked about the NSAA summer revenue detail slide; industry averages. Kent said this data is for zips and canopy combined; the data is skewed by those 'dabbling' in the summer. There are only a handful of alpine coasters in operation. Alpine slide is not nearly the amenity that the coaster is and noted that the coasters are doing really well. They got their ROI in 11 months. 100K visits in summer and winter. Vail resorts wants to build two alpine coasters. They want to do two coasters on Vail Mountain for best investment. Al said we are unique because we are at Lake Tahoe. Kent said summer operations could bring in 10% of winter revenue. Al asked about smaller resorts. Kent said Gunstock is killing it in the summer. Tim said the size of DP relative to other resorts is skewed so far down. Snow Summit will blow Mammoth out of the water because of how close the

people are to the resort. Its relative to the size of the market. #1 snowboard park was Snow Summit because they drove the market into the park. It's not relevant to compare summer and winter operations. There are different guests.

Mr. Sharp spoke about Mt. Rose 'if they build it, will they come?' He said it's a difficult proposition. Another project in Manitoba, Canada, was advised not to waste money doing summer operations. The numbers aren't there. If you don't have a captured audience, don't do it. It's a no brainer. When they are already here, sell them something else to do.

Liz Harrell asked if they considered an ice skating/roller rink as that is a huge activity at Northstar. Kent said no, they haven't talked about it. Kent said they avoided activities at night and no music. Liz said we are losing people to Northstar. Visitors and residents are going to Northstar. Kent said we want to keep the base area quiet. Bruce said we looked at doing an ice rink near the Rec Center and that we almost got the rink that ended up in Reno. Tim said Northstar Village pulls the business. If you pull that away, no one would be there to skate. Kent said that is how Beavercreek is.

Eric Severance asked about sequencing and incrementing. Sequencing: let's have this pay for itself. He asked Kent to talk about that strategically. What would this look like? Kent said the genesis of the proforma analysis was what can fit here, demographics, and financial analysis. The financial analysis started to determine the plan. Looked at each line item and saw the margins. Kent said we had to determine which of these activities has low capital with the highest return and which starts the capital engine. The criterion was to avoid impacting the Rec Fee. It has to be self sustaining. We had to determine how to do the most with least investment with future self sustainability. First phase is with a debt service as a \$18million debt service would kill you. You can also dilute it down too. We find the right phasing; 4 phases with lift and snowmaking. Net operating income which helps defrays the capital for phase two. And once phase one and two are running, it defrays cap at phase 3. Kent said there would be a possibility to do Snowflake earlier if you want to risk it. Snowflake is the single item that any private investor would do right away.

Eric Severance spoke about front loading to pay later. Put the newest business upfront is scary, new and risky. Kent said if you dabble in this with high expectations, it's not going to work. You would be disappointed. Alpine coaster for phase one because it has a 72% margin. There hasn't been anybody who has put it in, and thought it was a bad idea. Phasing is critical. We have to consider the impact to the Rec fee. The community doesn't have the appetite to bond the large amount. There is a right number between \$3-\$5 million in bond. Don't do too much debt service, but don't go too little. You will be disappointed in results with dabbling.

Bill Echols said he is worried about crowds coming to Incline with more things to do. Kent said he doesn't think the amenities are going to constitute an attraction. He said he doesn't think phases one and two are going to be an attraction. It will be folks who are already coming for the lake. 2-4 hours spent in a 4 days stay. Not a strong enough demand to be an attraction.

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Brian Hrindo asked if we are competing with anyone else building a coaster. Kent said Heavenly has it as part as their package and Squaw is thinking about it. Kent said this is your opportunity to make a big and bold move. Make the market respond to you. What mistake can we make? You have to go first. Brian asked how long will we deliberate about this. Kent said we are losing time.

Robert Olmer said let's assume another resort puts one in, we would be completely dependent on what is happening in Incline Village. Beating them to the punch is not a concern. Robert said once the CalNeva comes back online, and the Hyatt has plenty of hotel rooms, a large percentage of business will come from just Incline Village. Kent said that is in master plan. If you put a box around Incline, we have enough of a market. In Colorado, Breckenridge, they have had the alpine coaster for 4 years. Vail is 30 minutes away and wants to put in 2 coasters. They aren't concerned about taking business away from Breckenridge. People go to Breckenridge because it's an attraction.

Deborah Prout said this conversation has created a sense of urgency but then the fundamental premise of being discreet. Kent said there are two ways of looking at it. The visitors that are already here are sufficient to support activities. Both resorts can do summer activities and should if they want to. Kent said he wanted to clarify, he said he doesn't think it matters if they build one too.

Bill Echols asked if it matters if we move now or in 5 years. Does it make a huge difference? Kent said it would be a year-round revenue stream. If it's not snowing, there is a bit of urgency; there are a lot of factors.

Eric Severance said this is an opportunity and we have aging infrastructure. There is a dynamic. Kent said we haven't talked much about winter ops. Winter is doing well. Nicely maintained and capitalized. There are a lot of resorts who are just duct taping and not investing to maintenance, and they are making less money. There are a lot of people who are in that category. DP is not in that category. They have invested in the facilities, continuing in winter improvements and meeting guest expectation.

Jess Jameson said Tahoe is a unique market for its environmental element. She asked what has been factored in for the environmental components in planning. What are the impacts or studies for the alpine coaster? Kent said they have had great preliminary meetings with TRPA and Forest Service. The Forest Service was encouraging and supportive. They were good meetings and very receptive. From an environmental impact stance, mountain biking requires proper maintenance for erosion prevention. Most of the activities are off the ground and don't impact the ground as much. The zip/challenge is up off the ground, less of an impact on the land.

Steve Pulver said we have unique facilities and assets, and we want to maximize sustainability. Kent said we need to put these assets to work. Create a revenue stream to invest into things and expenses. However, it depends on how fast and what gets implemented. Kent said he is most excited about this plan.

Judith Miller said Kent use to work for the Forest Service. The canopy tour would be on Forest Service land. She asked how long it would take to go through the Forest Service process. Kent said it would take 18-24 months to

get through the TRPA process. Kent said they would strategize to run these approval processes parallel with the same data. Wildlife study would serve for both.

Bill Echols asked about the pump track features. Kent said the pump track features are for summertime and get stored away during the winter.

Al O'Connor asked about the proforma for food and beverage. Are these true conversion rates? Is this a realistic number? What is the industry data to convert people into F&B customers? Kent said people brown bag it in the winter because they are there all day. Summertime usage would get a lot of lunchtime revenue because they will pay a lot for a burger and the view. Al O said the projected numbers for the coaster are so good, they are unbelievable. Why don't they install them all over the place, not just at the ski hill? Kent said the coasters are somewhat new in the United States. The coasters have been recently approved to be installed on National Forest land last October. Bruce said the infrastructure is already in place at the ski resort. Jess said it's back to the topic of a standalone amenity vs. attraction. Standalone, one thing won't pull people. Kent said Bruce made a great point. You already have parking, food and beverage, plumbing. And you already have other attractions. Bruce said we can learn from others who have had the coaster. Kent said the coasters in the New England are mostly on private land. Before approval on Forest Land, it's been a deterrent up until now.

Robert Olmer said there has been no increase in market share in the last 10 years. If it wasn't for the Rec Fee, we wouldn't stay open. Robert talked about the back side lift. It wouldn't be open because we haven't had snow and it wouldn't have snow making capabilities.

Al O'Connor asked what if we are wrong. Kent said they haven't had projects that have bombed. We get conservative in the projections.