

Chapter 10

Public, Public-Private, Non-Profit Ski Area Ownership and Management

As discussed in Chapter 1 (Background & History) several attempts have been made over the past 20 years to entice private developers to develop the area, and in one case, to form a private-public partnership. These efforts have not succeeded for various reasons.

Chapter 8 (Operating Characteristics, Revenues, and Expenses) and Chapter 9 (Financial Results) was predicated on the assumption that the recreation areas at Hatcher Pass would be funded and built by the Matanuska-Susitna Borough as an investment in its future. Since there is no private developer or 501(c)(3) organization ready to take over the area once it is operational, these same chapters assume that the Borough will also operate the facility, but under the a separate umbrella organization as described in the Executive Summary and at the end of this Chapter. This scenario was utilized in order to perform a thorough financial analysis of the project. The Borough could own and operate the Hatcher Pass facility, but this is not recommended as the most efficient approach. It is, however, one of the options that should be considered.

There are several existing models of both public and public-private partnerships that prove insightful in relation to the successful implementation of “Hatcher Pass – A New Beginning.” National and state parks were opened for recreation use through public investment, but many contain private concessionaires that operate as for-profit ventures through their own investment with the public sector. Major attractions such as Sullivan Arena in Anchorage, the Rose Garden in Portland, Oregon, or Pier 39 in San Francisco would not have been possible without significant public investment.

In the AEIDA report, “Development Potential for the Proposed Hatcher Pass Ski Area” (2002), Economic Research Associates and Ecosign Mountain Resort Planners, Ltd. identified six areas to compare and contrast as case studies. Their research is still pertinent today and should be used as examples on how Hatcher Pass can be developed and operated as a public facility, a semi-public facility or a public facility with private partnership(s). RWS Consulting has updated some of the information for these areas and added other examples as well.

Each of these examples has pros, cons and lessons to be remembered when deciding the future of Hatcher Pass.

Ski Area Examples

Gore Mountain, New York

Gore Mountain, located in New York's seven million-acre Adirondack State Park, has a vertical drop of approximately 2,100 feet and skiing terrain of approximately 24 miles. The resort is owned and operated by the Olympic Regional Development Authority – a New York State Agency that also operates nearby Whiteface Mountain, site of skiing events for the 1980 Winter Games. The state has owned and operated the facility since opening in 1964.

Although the state operates the facility (which covers its maintenance and operating costs), it maintains a concessionaire relationship for its food and beverage and ski rental operations. The food and beverage operator does not pay a fixed lease fee; instead, the operator pays approximately 20 to 25 percent of its gross sales to the state.

Cannon Mountain, New Hampshire

Cannon Mountain, located in Fanconia, New Hampshire, has a vertical drop of approximately 2,150 feet and skiing terrain of approximately 12 miles. The mountain is owned and operated by a state agency, the New Hampshire Division of Parks. Since 1998, the operation has been self-funded. Previously, the park's operating budget was derived from the state's general fund. Generally, the resort produces an operating profit; however, in the event of a budget shortfall, the state makes up the deficit. Cannon Mountain is one of two of New Hampshire's state-owned areas; the other, Mount Sunapee, is discussed later in this chapter.

Cannon has been owned and operated by the state since opening in 1938. Employees such as lift operators, maintenance personnel, and administrative staff are included on the state's payroll. Food and beverage workers, however, are employed by a local concessioner that leases space from the state. The concessioner does not pay a fixed lease fee; instead, they pay a percentage of its gross sales to the state. The state collects approximately 25% of the liquor sales and approximately 20% of the food and beverage sales from the concessioner. Other resort operations, such as ski/snowboard rentals and the ski school, are operated by the state.

In discussing some of the negative aspects of being a state-owned and operated facility, management stated that it is difficult for Cannon to complete improvements and renovations, because it is difficult to raise money or to generate adequate operating revenue. In addition, management stated that the resort faces a challenge in that it must work within certain non-discretionary, state-dictated mandates, such as offering New Hampshire discounts to residents. Privately owned and operated areas do not need to work within these constraints, giving them an advantage over the current structure.

A few years ago, the Division of Parks issued a Request for Proposal to attempt to attract private operators interested in operating both Cannon and Mount Sunapee. The eventual outcome of this process was that Mount Sunapee was leased out to Okemo Mountain (the operator of a resort of

the same name in Vermont). Since Okemo began managing the property, the resort has increased its operating revenue, which has enabled Mount Sunapee to complete needed improvements and renovations.

Mount Sunapee Resort, New Hampshire

Mount Sunapee Resort, located in the New Hampshire town of the same name, has a vertical drop of approximately 1,500 feet and skiing terrain of 250 acres. Like Cannon Mountain, Mount Sunapee is also owned by the New Hampshire Division of Parks. However, unlike Cannon Mountain, Mount Sunapee is operated by Okemo Mountain, a private company that also owns and operates a resort to the same name in Vermont. Okemo pays a fixed yearly fee plus 3% of gross revenues to the state as its lease payment. Management believes that this leasing agreement has worked out favorably for the resort, since it has been able to complete needed renovations and improvements.

Winter Park Resort, Colorado

Winter Park Resort, located in Winter Park, Colorado, contains approximately 2,886 acres of skiing and has a vertical drop of about 3,050 feet. Until 2005, the City and County of Denver owned the resort, and the Winter Park Recreation Association, an independent commission, operated it. The City and County of Denver retained a certain amount of control over the resort since the Board of Supervisors had the authority to appoint some members to the Winter Park Recreation Association.

The operating structure changed in 2002 when the City and County of Denver formed a joint venture with Intrawest¹, a Vancouver-based company that has been successful in developing mountain and other resort properties. Presently Intrawest has an interest in 12 resort properties. Winter Park is the only resort of the twelve that Intrawest does not have any ownership interest; however, they are the lessee, manager, and developer of the resort.

Prior to forming the joint venture, Winter Park was structured to operate as a profit center; as such, the facility did not receive any subsidies from the city. Workers at the resort were not employed by the City of Denver; instead they were on the payroll of the Winter Park Recreation Association. Certain employees, however, were employed by the concessionaires to operate selected segments of the resorts' operations, such as food and beverage service. Unfortunately, the details of the exact terms of the former agreement between the concessionaires and the resort, or the terms of the current joint venture agreement could not be disclosed.

¹ Intrawest ULC is a world leader in the development and management of experiential destination resorts. Founded in 1976, Intrawest began as a residential and urban real estate firm. In the mid-1980s the company combined its real estate and mountain operations expertise to form unique village-centered offerings.

Giants Ridge, Minnesota

Located in the town of the same name, Giants Ridge is a small, state-owned and operated facility that has a vertical drop of approximately 500 feet and 202 acres of skiing terrain. The Iron Range Resort Rehabilitation Board (IRRRB), an adjunct agency of the State government, operates the facility. The area originally opened in the 1950's and was operated by a private corporation until 1984, when the State of Minnesota, through IRRRB, purchased it. The predominant reason for purchasing the property was to diversify the area's economy away from mining and to encourage tourism to the area. Since purchasing the ski resort, Giants Ridge has also developed two regulation golf courses on the resort property.

While the ski resort is operated by the state through IRRRB, the golf courses, as well as the resort's food and beverage operations, are managed by Troon Golf, a large golf management company with a national presence. While management did not disclose the exact structure at the time the 2004 AIDEA report was written, the fee likely consists of a base payment somewhere in the neighborhood of \$50,000 to \$100,000 plus about 3 to 5% of the gross revenues. Another local concessionaire manages rental operations for ski and snowboard equipment during the winter, as well as canoes and kayaks during the summer. This concessionaire does not have a fixed lease payment; instead, they pay 20 to 25% of gross revenues to the state.

Management stated that the resort would prefer to have its ski operations managed by a private company, since it would not be bound by state restrictions. For example, currently ski resort employees are on the state's payroll, and as a result, they receive wages and benefits that are higher than would be paid if a private company operated the resort. Management believes that the state's running of the ski area increases its labor cost basis, thereby depressing operating profits and stifling growth. Management would like to transition the operations of the ski resort to a private company; however, state rules prohibit the displacement of current state employees. When structuring operations of the golf component, which opened at a later date, management was careful to avoid the structural problems associated with the ski area's operations, and decided to employ a golf management firm to operate the course.

Bogus Basin, Idaho

Bogus Basin, located in Boise, Idaho, contains approximately 2,600 acres of skiing terrain and has a vertical drop of about 1,800 feet. The resort is neither owned nor operated by a government or a public agency. Instead, the resort is structured as a non-profit 501(c)(3) corporation. Under this operating structure, the resort is exempt from corporate taxes; however, all excess profits must be reinvested in the company. The resort has also set up a sister non-profit 501(c)(4) foundation, which accepts donations earmarked for the ski resort. The foundation can channel funds to the ski resort for certain types of projects. While Bogus Basin is not an example of a municipality-owned or operated ski area, it nonetheless provides an example of a possible operating structure for Hatcher Pass.

Eaglecrest, Juneau

Eaglecrest, Alaska's second largest ski area, opened in 1976. Eaglecrest is located on Douglas Island, 12 miles from downtown Juneau, and 20 miles from the major residential population area of the Mendenhall Valley.

The ski area has two chairlifts and a beginner platter pull. Two additional lifts are being installed in the summer of 2008. These lifts access over 600 acres of skiing and snowboarding with a 1,400-foot vertical drop. Two large bowls are also accessible for those who wish to hike to ungroomed terrain. With the rise in popularity of snowboarding, it is estimated that approximately 45% of the users are snowboarders and 55% are either alpine or telemark skiers.

Eaglecrest is operated as a special revenue fund of the City and Borough of Juneau. Eaglecrest employs 6 full time employees and has a seasonal staff of another 130 local residents. The total budget is \$2.1 million per season with a payroll of \$1.1 million.

The City and Borough of Juneau has underwritten the ski area, with 30% of the budget coming through general fund support. In 2000 and 2002 low snow years created a deficit, which is now approximately \$650,000. For the past 2 seasons, Eaglecrest has been paying down this negative balance through increased revenues and reduced expenses.

Eaglecrest is operated by a general manager who is hired by a board of seven members of the general public appointed by the City and Borough of Juneau Assembly. The general manager reports directly to the Board of Directors.

Approximately 1,800 people purchase season passes with 55% being adults, 28% being youth and seniors and 17% being child and preschool. Currently, Eaglecrest sells an additional 12,000-day tickets during an average season. 67% of total lift revenue is derived from season pass sales with day tickets accounting for 33% of the sales. Eaglecrest does not have a way to determine season pass usage. If the average season pass holder used the mountain 15 times per season (a low estimate according to the National Ski Areas Association), total visits would be 39,000 per winter season, which is equal to all its current winter visits.

Eaglecrest offers every middle school student the opportunity to visit the mountain two days a season as part of the school district's educational program. These visits are not included as part of the 39,000 annual winter visits. This program allows middle school students to experience the alpine environment and enjoy outdoor recreation which may be missing from many children's lives in today's society.

Eaglecrest is unique in that most ski areas do not offer transportation to the mountain for local residents. A fleet of four busses runs every weekend to provide transportation for those who either wish not drive, or are too young to drive to the mountain. Eaglecrest operates the bus service themselves, rather than contracting for this service.

Eaglecrest has expanded its summer operations to include a zip line, which is operated by Alaska Zipline Adventures. Eaglecrest also hosts many summer weddings, meetings and other special events.

Hilltop, Anchorage

Hilltop Ski Area is owned and operated by Youth Exploring Adventures, Inc., which is a non-profit 501(c)(3) organization, dedicated to providing recreational programs for Anchorage youth. The ski area transitioned from a rope tow operation to a full service day use area in 1983, adding snowmaking in the summer of 1984.

The facility has three lifts (triple chair, rope tow and platter lift) that serves 30 acres of groomed easy terrain. The ski area has a vertical distance of 294 feet with a slope distance of 2,090 feet. Annual skier visits average 50,000 skiers per year with approximately 70 percent of those being snowboarders. The ski area is primarily a beginner area, which serves as a feeder to larger ski areas with more challenging terrain.

Hilltop ensures its winter season with the use of manmade snow. Hilltop is primarily a night skiing operation opening at 3:00 pm most days and 9:00 am to 9:00 pm on weekends and holidays.

The ski school provides a large variety of programs for all ages in snowboard and ski instruction. Hilltop also provides a full assortment of equipment rental packages for skiers or snowboarders. They also have a snack bar service that provides hot and cold beverages and food.

Hilltop Ski Area is located on Municipality of Anchorage parkland and operates under the provisions of a long-term lease (30 years). Although Hilltop is located on Municipal land, Hilltop does not receive operational funding from the municipality or the state. Hilltop is completely self-sufficient for its operating budget, which can be challenging during lean snow years.

Hilltop has an annual budget of approximately \$1.2 million. The ski area employs 4 full time staff and 80 – 100 seasonal staff. The annual payroll averages \$500,000. Season pass sales generate approximately \$250,000 annually and generated \$50,000 from fundraising efforts.

Hilltop's non-profit board consists of 15 volunteers. The board members come from a wide range of expertise (engineers, lawyers, small business, pollsters, homemakers and private consultants). The full board meets monthly with one annual meeting when elections are held. There is an executive committee consisting of the President, 1st Vice-President, 2nd Vice-President, Treasurer and Secretary. The Executive Committee meets twice per month. The CEO has been given a very broad range of responsibility and control. These include direct day-to-day operations, annual budgeting, program development, infrastructure development, capital improvements, public relations/marketing and risk assessment.

Alpenglow, Anchorage

Alpenglow, located at the head of Arctic Valley is operated by the Anchorage Ski Club whose sole purpose is to operate and develop Alpenglow. The Club holds a long-term lease for the portion of the facility that is within Chugach State Park.

Three lifts serve the area, which is spread out over 500 acres of skiable terrain. A T-bar is located next to the day lodge and has a vertical rise of 984 feet. Chair 1 has a vertical rise of 813 feet. Chair 2 has a vertical rise of 1,241 feet.

The Club was founded in 1937 and has actively worked with the military and Chugach State Park to develop and maintain Alpenglow since 1940. The club obtained 501(c)(3) status in 2001.

All maintenance of the facilities, as well as area management and administration is performed by volunteers. A “club owned” ski area such as Alpenglow is unusual, and a ski facility the size of Alpenglow that is operated with all volunteer labor is rare, if not unique in the United States.

Because of the volunteer work force, the facility operates only on weekends. Presently Alpenglow has no snow making capability or night lighting, although the area did have those capabilities in the 1980’s and 90’s. The area did operate with paid employees from 1961 – 1996.

The Board of Directors of Alpenglow is presently in the process of reorganizing and hiring paid employees. They are presently recruiting for a general manager.

Ownership and Management

When the 2004 Alaska Industrial, Development and Export Authority (AIDEA) study was completed, various alternatives were considered that might enhance the operating results and attractiveness as a development opportunity. The resulting recommendations found that public sector involvement was necessary in order to attract private developers through incentives. That approach was tried unsuccessfully three separate times.

Under “Hatcher Pass – A New Beginning” this approach is not being used. However, developing the area in a way that could attract future private or non-profit involvement to operate all or parts of the area are still important to remember.

With “Hatcher Pass – A New Beginning” it is proposed that the Borough build all the infrastructure and the Nordic and Alpine ski related facilities at Hatcher Pass without any residential or large commercial development during start-up. This approach has never been seriously considered as a viable option in the past. The advantage to this approach is that the skiing facilities and other recreational opportunities that the public has long sought can finally become a reality without political and economic unnecessary “byproduct or unwanted baggage.”

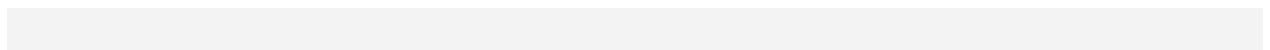
Thus there remains the overriding issue: how should the facilities be structured, managed and operated so that they become self-supporting?

The consulting team doing the 2004 AIEDA report found that pure public ownership and management seemed to carry some unnecessary “baggage” that could hinder efficient operations, most often in the form of a bureaucratic, slow-moving organization with higher labor costs and purchasing restrictions. At that time, the Borough clearly indicated that they did not want to become a ski area operator or developer. However, there are examples where public ownership, or a form of does work (see Gore Mountain, Cannon Mountain, and Eaglecrest examples).

The team doing the AIDEA report found the preferred alternative to be public funding and ownership of selected assets and third-party development and management of the mountain facilities under either a for-profit or a not-for-profit 501(c)(3) corporation.

While a 501(c)(3) partner has some advantages in terms of insuring reinvestment of proceeds into the mountain, it did not appear to RWS Consulting that stabilized cash flow and proper capital reserves were available to insure such reinvestment would occur on a regular basis (see Alpenglow example). There are exceptions to this that have proved to be very successful (see Bogus Basin and Hilltop examples).

They found that a for-profit outside firm appeared to be the most favorable direction, especially one that already knows the business. They would be more efficient and opportunities may exist for the operator to cross-market multiple areas (see Mount Sunapee and Winter Park examples). However, these firms also carry baggage as well. Most for-profit companies operate a ski “resort” for its money-making capability which usually translates into an area’s real estate potential (see Winter Park/Intrawest example).



Possible Operation Scenarios

Public Management

As shown in the examples earlier in this chapter, public or semi-public ownership can be performed in two ways:

Option 1 - the facility owned and managed exclusively by the Borough using Borough employees.

Pros

- facility totally owned and managed by one entity
- funding and expenditures totally controlled by Borough Assembly
- all employees report to the Borough Manager
- ability to draw on expertise from other departments and employees
- potential revenue source to offset loss of property and other taxes

Cons

- likely higher wage and benefits than private industry
- establishing new job classes that may not pay comparable wages to other borough employees
- employees subject to layoffs and “bumping” rights
- competition with services normally provided by private industry (i.e., food and beverage service)
- restrictive purchasing processes that cannot react to time sensitive situations
- limited flexibility to establish rates and programs
- borough needs to ensure appropriate funding if facilities not in the “black”

Option 2 – semi-public ownership structured to be managed on a daily basis by an independent “enterprise” with a “Board of Directors” appointed by the Mayor and approved by the Assembly (see Winter Park prior to Intrawest partnership example).

Pros

- independent management that reports only to the Borough Assembly
- prepares and has responsibility for all financial and operational decisions
- has ability to hire employees outside of borough personnel system
- flexibility in setting wages and benefits
- ability to use purchasing processes more closely aligned and utilized by larger private industries
- ability to hire appropriate concessionaires outside of borough contracting process
- flexibility to establish rates and programs
- ability to respond quickly to changing markets and conditions
- profits returned into continuing maintenance and development

- has existing models and a history of successfully working in state government in Alaska (Alaska Railroad Corporation, Alaska Housing Authority, Alaska Aerospace Corporation and Alaska Industrial Development and Export Authority)

Cons

- employees may be part of the borough's wage and benefit system, unless organization or association is established to run independently of borough government personnel and purchasing requirements (see Winter Park Resort example)
- public may still perceive that the facility is operated by the borough with borough employees
- competition with services normally provided by private industry (i.e., food and beverage service) unless those services are contracted out

Non-Profit

Ownership and management by a totally independent 501(c)(3) organization with no ties to the Borough other than some board members would be appointed by the Borough Mayor and approved by the Assembly.

Pros

- no borough employees
- all profits must be reinvested into the ski and recreation areas
- area may be operated the same as a private facility
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Cons

- no organization currently exists, nor has there been any interest from the public in creating one
- difficult to create and continue an organization that will manage both the North (Alpine) and South (Nordic) sectors on an equal and equitable basis
- little, if any, borough control over its investments
- no borough revenue return on its investment
- non-profit groups do not have a solid history of managing recreational facilities throughout the country
- requires "active" management to be successful
- start-up and lean years may require outside funding
- no guarantee that programs for all segments and ages of the public will be offered

Private Management

Utilize a joint venture agreement for a manager and developer

Pros

- no borough employees
- area operated as a private profit making facility
- borough will receive some revenue for its investment

Cons

- area will be managed for a profit and not necessarily support local needs
- hard to find private corporation to manage a recreational facility without a real estate (housing, hotels, etc.) component
- there has been no indication from the private sector that anyone is willing to enter into an agreement to just operate the skiing facilities that has no proven track record
- no firm in Alaska currently exists with experience in successfully managing all the components necessary to operate a day-use skiing facility in Alaska

Recommended Operational Structure

When Hatcher Pass is ready to open, it will most likely be in a transition phase – as a new recreational facility with no history on use, revenue potential or operating expenses. While the completed facility could likely entice a private developer to operate it, the likely cash return to the Borough would be much less than marketing an established facility with a proven “track record” of performance and revenue.

In order to maximize mid to long-term revenue to the Borough and to give the public and Assembly more future management and financial options, it is recommended that the Borough does not immediately try to privatize both the Northern and Southern Sectors.

Instead RWS Consulting recommends that the “keys to the facilities” be turned over to an independent “enterprise” or “commission” similar in structure to an LLC. The organization should have an independent board of directors who report directly to the Borough Assembly.

The Borough would be an equity partner in the organization.

The general manager of the organization would hire all employees; establish appropriate pay scales, etc. Employees of the organization, except possibly the general manager would not be borough employees. The general manager would be recommended by the organization, but approved by the Borough Assembly.

The organization would establish its own purchasing and procurement processes to be approved by the Borough Assembly. The purchasing and procurement processes should be established and

operated similar to the private sector, but with competitive bidding where appropriate. The organization should be encouraged to privatize functions, especially food and beverage service and retail sales, which can be operated by private industry without jeopardizing the mission of the ski area facilities.

Once it is operational, at least through Phase I, and with a proven track record (expected in 3 – 5 years), the organization should be required to actively seek or issue a competitive Request for Proposals to turn over full operations of the area to private industry. Because the Borough is the landowner and likely owner of all the facilities, the Borough should always be an equity partner, unless all the facilities are sold for fair market value.