

Eaglecrest Summer Operations Task Force

Tuesday February 22nd 6:00pm

Agenda

<https://juneau.zoom.us/j/89724482460>

or: 1-253-215-8782 Webinar ID: 897 2448 2460

- 1. CALL TO ORDER / ROLL CALL**
- 2. APPROVAL OF AGENDA**
- 3. APPROVAL OF MINUTES:** February 11th 2022
- 4. Review of financial models**
 - a. Gondola only Base Line Model**
 - b. Gondola/Coaster/Lodge Model**
 - c. Comments from JEDC or other Financial Analysts**
 - d. Impacts to General Fund Balance**
- 5. Financing Options**
 - a. Central Treasury Loan**
 - b. 1% Sales Tax Option**
 - c. Revenue Bonds / Public Private Partnership**
- 6. Other remaining questions from the Assembly / Eaglecrest Board**
- 7. Adjournment**



MEMORANDUM

DATE: February 22, 2022
TO: Eaglecrest Summer Operations Task Force
FROM: Katie Koester, Engineering and Public Works Director
THROUGH: Rorie Watt, City Manager
SUBJECT: Engineering Input on Cost Estimate for Gondola Installation

The purpose of this memo is to provide the Task Force with context for the \$7.5M cost estimate provided by Director Scanlan for installation of a gondola at the Eaglecrest Ski Area (ESA). Due to the specialized nature of the installation, it is difficult to get an accurate cost estimate without hiring an expert. That being said, Engineering can provide perspective based on historical knowledge of projects costs in Juneau and the installation of Black Bear in 2008/09.

Access Road + \$400K

Although the access road is a significant project expense, it will greatly reduce the helicopter time that would otherwise be necessary to haul supplies and materials. We have a higher degree of certainty in the access road cost estimate as CBJ has ample experience in building roads.

Soft costs + up to \$1.0M

Every project has costs to consider outside of pouring concrete and moving materials. ESA budgets \$600,000 for design, however it would be prudent to add budget for permitting, administration, inspection and project management (25% of construction cost).

Uncertainty

The Assembly has witnessed cost volatility even from estimates based on 100% design depending on the bidding climate, supply chain and specialized nature of work. Augustus Brown pool is a good example.

Elements of this project that carry a higher degree of uncertainty include:

- Location: we don't know exact alignment or what we will find during installation
- Helicopter time: fuel costs and helicopter availability – the mountain access road will not be able to be constructed to each tower location.
- Terminal Enclosures: volatility in building material prices – likely needing steel structural framework account for wind and snow loads on the mountain at Eaglecrest
- Concrete: the cost of concrete has also increased plus delivery costs to each tower or Terminal structures are significant whether flying by helicopter or reduced truck loads because of steep mountain access roads (reduced mixer truck capacity because of spilling concrete while climbing steep mountain road slopes) -
- Construction inflation: timing will impact the cost of construction. CBJ traditionally estimates 5% a year for construction inflation, though those numbers have been unpredictable since the beginning of the COVID 19 pandemic.

Contingency + up to \$1.0M

The greater the degree of unknowns in the project, the higher the recommended contingency. At this stage in design, for a run of the mill road reconstruction project, we traditionally budget 30% contingency for the budgetary planning of a project with known boundaries. The \$7.5M estimate

includes 26% of construction cost for contingency, based on no field reconnaissance information, a general desired gondola alignment and known procurement cost of the gondola. With the information provided, we feel this is significantly low, and recommend increasing the contingency to 50%.

In Conclusion

Without hiring an expert and advancing design, it is difficult to provide a cost estimate with any degree of accuracy in one direction or the other. For example, If ESA's original estimates are high, the cost inflation gets compounded with every contingency and soft cost percentage added on top of it. Therefore, it is not the intent of this memo to provide a more accurate cost estimate, but rather to provide context for the numbers that ESA has provided so the Task Force can understand the degree of risk involved.

ESA cost est.	\$7.5M
+access road	\$400k
+soft costs	\$1.0M
+contingency	\$1.0M
Range of estimate	\$7.5M - to \$9.9M

Eaglecrest Gondola Project

Financial Considerations and Business Case

Overview:

Eaglecrest has been working on plans to develop summer operations since 2019. Funding Ordinance 2021-08(b)(am)(z) was sponsored by Wade Bryson and brought forward during the Assembly Finance Committee meeting on February 2nd. The Ordinance would allocate \$2 Million dollars for the purchase, transportation and preliminary engineering on a used fixed grip pulse Gondola from Austria. The Gondola would be the keystone of Eaglecrest expanding existing winter operations into a year around operations with summer activities geared toward Juneau's increasing number of summer visitors while enhancing existing summer use by local residents.

The CBJ has had exploration of Eaglecrest Summer Operations in their annual Goals document since 2019. In 2019, 2020 and 2021 the Assembly Goals stated in the Economic Development section "Explore viability of a summer operation plan for Eaglecrest Ski Area." In 2022 Assembly Goals in the Economic Development section the language was updated to state "Support Eaglecrest Summer Operations Task Force & self-sufficiency of Eaglecrest."

Eaglecrest has developed two primary business cases. The First business case which will be explained in this memo is the business case that we feel brings the greatest positive financial impact to Eaglecrest / CBJ. During consultation with Ski Area Master Planners and ski areas that have successful summer activities, the greatest success is achieved when there is a suite of activities offered. This model contemplates CBJ purchasing and operating the Gondola and a Mountain Coaster ride experience. Eaglecrest has current concessionaires offering a zipline excursion and bicycle tours. Both of these concessionaires wish to expand their operations. With the CBJ offering the back bone infrastructure Eaglecrest will have capacity to allow other tour operators the ability to offer bundled tour packages or develop new unique tour products that take advantage of the expanded core infrastructure.

Project Goals:

- Create a sustainable revenue stream capable of paying staff competitive year around wages
- Create a funding mechanism capable of funding the replacement of other aging ski area infrastructure
- Guarantee winter operations in the face of ongoing climate change
- Retain uniqueness of community ownership model
- Increase accessibility and use of Eaglecrest for non-skiing and snowboarding residents of Juneau
- Create healthy and affordable summer activities for Juneau's youth
- Stabilize Juneau's tourism economy creating more winter employment opportunities
- Fund development through a repayable funding mechanism such as a Central Treasury Loan or Revenue Bond.

- Eliminate ongoing need for CBJ General Fund Support

Financial Assumptions 10 Year Financial Tab:

Revenue & Visitation Forecasting: It is assumed that the Gondola would be purchased and transported to Juneau in CBJ FY 23. Funding for installation and construction of the Mountain Coaster would happen in the second half of FY 23 and the first half of FY24. The Gondola would open for winter operations during the winter of 2023/2024. The start of summer visitation on the Gondola would begin in May of 2024. The summer cruise year is split by the CBJ fiscal year cycle which runs from July 1st to June 31st. In the FY 24 column I have listed total visitation of 450,000 which is the estimated visitation of a partial cruise season that would average 1,350,000

Capture Rate: The financial model is based on an assumed capture rate of total visitors that are coming through cruise visitation and through independent travelers. Eaglecrest is assuming a capture rate of 4% of total cruise visitation. The cruise industry is estimating over 1,500,000 million visitors arriving in Juneau in the summer of 2022 if the ships were at 100% capacity. The industry is currently seeing very strong demand but are unsure of what capacity restrictions might be in place due to COVID considerations. It would be safe to assume that two years from now, when Eaglecrest is ready to operate the new Gondola, COVID concerns will be over and ships will be back to running at full capacity. Eaglecrest has taken a very conservative view forecasting cruise visitation starting at 1,350,000 in FY 24 & FY 25 (2019 actual visitation numbers) and then projecting a 3% annual increase from FY26 forward.

In the 2016 Juneau Visitor Profile and Economic Impact Study from McKinley Research (formerly McDowell Group), referencing the number of visitors participating in hiking, tram rides, zipline rides, and bike tours. The study found the following participation rates in activities through exit surveys of Juneau tourists, abbreviated for this memo. Note that the activities stated are not exclusive categories (i.e., a single visitor may have participated in a nature walk and tramway ride).

	All Visitors	Cruise Passengers	Air Passengers
Day Cruises	31%	31%	21%
City/sightseeing tours	19%	19%	13%
Wildlife Viewing	14%	13%	25%
Hiking/nature walk	15%	14%	31%
Tramway/gondola	15%	15%	21%
Zipline	1%	1%	1%
Biking	1%	2%	1%

Using this as a base line for our capture rate which shows that 32% of all visitors to Juneau area are already partaking in the activities that will be offered at the Eaglecrest Adventure Park. We

feel Capturing 4% of this portion of the visitor market is reasonable. During 2019 there was a documented lack of visitor capacity. The Glacier Visitor Center was at capacity and no longer issuing commercial tour permits, the Mt Roberts Tramway would often have an hour and a half wait and the Whale Watching Tours were selling out.

Plan B Tour days, this is a term in the Juneau tour industry that refers to days when all air born excursions are grounded due to fog and a low cloud deck. During these days available tour option decrease by a large increment putting additional pressure on Juneau resources. Many of these days the Eaglecrest Gondola and Mountain Coaster would still be operational. It would be reasonable to forecast an additional capture rate on these plan B days. In an effort to be conservative we have kept our capture rate flat over the projected years even though we feel it is likely that the percentage of capture rate may grow as visitation grows as other popular activities hit capacity limits.

Mixed –Age Visitors and Adventure Travelers. Juneau has very few tour options for kids. Eaglecrest would have strong appeal to the growing segment of cruisers that are traveling with multiple generations offering activities for Parents, Grandparents and Kids all at one destination.

Independent Visitor Capture Rate: As you will see our capture rate for independent travelers is higher. In the chart above broken down by visitor type, 31% of air travelers do nature hikes and walks and 21% ride the tram. Being that independent travelers will be staying in Juneau for multiple days, they have time to participate in the main attractions and will be likely to visit Eaglecrest to take in the mountain top vistas and trial experiences across the mountain. We are assuming a 15% capture rate on this group of visitors.

Average Visitor Spending: The average visitor spending assumes that the cost of an Al Carte scenic Gondola Ride is \$35, a match to the Mt Roberts Tram. We then assume that another \$10 will be earned through a combination of food sales and retail items. The mountain coaster will be an extra charge a \$15 for the first ride and \$10 for an additional ride. We will come up with an all inclusive adventure park pass that would allow unlimited coaster rides for an additional price. These rates are assumed “window or walk up local rate”. We intend to partner with Alaska Coach Tours as a primary transportation partner that would broker the product as a bundled package through their existing relationships with all of the primary cruise lines. We have had an active relationship doing existing bundled tours during the summer of 2021 and continuing into the summer of 2022. When sold “onboard” the cruise lines will mark up the cost to achieve their desired margins as they do with most products.

Throughput: The Gondola has an hourly capacity of 600 passengers per hour. The configuration of the Gondola will have three fifteen passenger cabins traveling in a clustered pod. Conservatively, each pod will be moving 45 guests up the mountain every 4 minutes. Another way to visualize this is that every four minutes we would have the capacity to move a full sized greyhound style Charter bus full of people up the mountain. The Mountain Coaster is designed to have a peak throughput with 50% of the carts having double rider capacity of 280 passengers

per hour. The Mountain Coaster Cart is equipped with a rain cover to keep customers relatively dry allowing the coaster to operate in any weather which will assist Eaglecrest on the Plan B tour days described above. With an estimated total daily visitation of 475 to 500 visitors per day we are well within these capacity parameters.

Total drive time on a charter buss from the port to Eaglecrest including time to disembark from the buss and arrive at the base station of the Gondola is estimated at a comfortable 35 minutes. Total ride time to the top of the mountain in the Gondola is 7 minutes. Using these estimates, it would be safe to assume that Eaglecrest could provide a quality experience during shorter port calls when visitors may only have a total of 3 to 4 hours away from the Boat. In a two hour time frame 300 people could conservatively be turned through the mountain coaster and over 500 people through the top of the mountain for site seeing and ridge walking. It is assumed the independent travelers will arrive by their own means likely a rental car.

Mountain Bike Revenue: In the year 2026, as the summer model begins to mature and additional trail infrastructure is completed and visitation on the Gondola increases the concept of running the Hooter Chair Lift on weekends specifically for mountain bikes is brought into the model. This will primarily be focused on the local and youth market. Expenses for running the Hooter Chair, mountain bike instructors and a mountain bike shop are brought into the equation.

Winter Revenue Lines 17 – 37

Historically winter revenue has taken major swings due to the winter weather that might be happening in a particular season. We have made substantial investments and into our snowmaking system to help mitigate the swings that come along with warm winters. Our users have now gained confidence that they will have a full winter of skiing and snowboarding due to the increased dependability from our new expanded snowmaking capacity. This has greatly increased our Annual Revenue, in line 20, which is comprised of seasons passes multi visit cards and our flex passes. These sales all happen prior to the start of the winter. An average of 30% of our Snowsports revenue also happens before we open the mountain from families registering in our multi week lesson programs. COVID helped Eaglecrest to bring many new skiers into the sport that we have retained into FY22.

The sales reflected in these lines are only related to winter revenue. Food concessions and retail soft goods sales for summer are wrapped up in the average daily spending metric.

The new Gondola and expanded winter ski terrain combined with cross marketing to our summer users allow us to estimate growth in all of our winter revenue centers. These growth rates reflect volume growth with flat pricing. One of our goals with summer operations is to allow summer revenue to keep skiing and snowboarding affordable for Juneau residents. The chart below shows the percentage increments that each revenue center will increase by.

Revenue Center	Percentage Increase
Snow Sports School	5%
Ski Lift Fees (Day use lift tickets)	10%

Annual Fees (Seasons Passes & Multi Visit)	5%
Food Service	10%
Ski Repair	5%
Ski Rental	5%
Winter Retail	10%

CBJ General Fund & Road Service: This is shown in line 38. The higher amount shown in FY 23 reflects that amount that will be requested during this year's budget cycle which reflects increases in insurance rates, inflation on materials and commodities and increased wages. The financial model contemplates CBJ continuing to contribute the historic amount of general funds that was allocated in FY22 for the duration of the debt repayment cycle shown in lines 74 to 76. Once the debt is repaid in FY 29 all general fund support for Eaglecrest is eliminated.

Permit Revenue: Eaglecrest currently has numerous commercial use permits with independent concessionaires. The revenue on the contract revenue lines increase as each vendor will be able to grow their respective business models based off the increase traffic and marketability of their expanded offerings.

Cabin and Facility Rental Revenue: These revenues increase with the addition of our second overnight cabin and increased opportunity for rental activities at the top of the mountain or Cropley Lake.

Expense Characteristics of Eaglecrest:

This section will outline which expense items are impacted by increased visitation and how these have been shown in the Expense Detail tab which rolls up into the 10 year financial tab. In a general sense, running a ski area is like running a big physical plant with many large fixed costs that are independent of visitation. The staffing expense only increases in a few areas to meet increased visitation. These area are in Food Service and Cashiers. The assumption is that the bulk of the visitation will come through the cruise lines which would allow ticket sellers to preload digital scanning tickets prior to arrival eliminating the need for many of the cruise visitors to visit a cashier upon arrival for a Gondola or Mountain Coaster ride.

Staffing Cost Assumptions.

The base line wages starting in FY 23 are based on the assumption that the full 23% pay increase is in effect, over the starting base wages of the FY 22 season. Implementing this pay increase is the goal of the Eaglecrest Board. This brings the starting entry level wage for a range 101 position equal with Alaska Minimum wage and keeps the wages of all positions within comparable wages being paid across North America at similarly sized ski areas. This wage data is provided for Eaglecrest through the National Ski Areas Associated annual wage analysis. The ski area work force is generally very transient in nature and as such, wages are shown to remain flat as most positions in each year's wage detail are represented at paying around step 4 in the pay scale. As employees leave and are replaced by a new round of seasonal workers they will be starting in at step 1. An annual 1 step increase for cost of living adjustments has been

applied to the majority of the fulltime year around staffing positions. This is something that Eaglecrest has not been able to achieve in the past. There was an eight year gap where wages remained flat for all employees.

Staffing levels increase in proportion to expanded summer and winter operations to ensure that proper staffing levels can be accounted for to ensure a proper guest experience.

Expense Lines Tied to Visitation Expense Detail Tab:

Line 17 Contractual Services is linked to visitation. This encompasses our Snowbus contract, our software agreement for our ticket scanning gates and our media stock for our scanning gates. This category seems to tend on a ratio of \$1.8% of revenue

Bank Card Fees:

Line 20 encompasses Bank Card Fees. Rolled up in this category is the cost of our point of sale annual agreement which is based on 1.59% of sales. In addition to this is our fees for our payment processor and payment gateway. This all adds up to a total of 3% of gross revenue.

Insurance Fees:

Line 23 Spec and Prop line is related to our ski area liability and property insurance. This policy is also tied to revenue at a rate of 2.7% of gross revenue

Fleet Replacement: on line 27 has been doubled by FY26

Materials and Commodities: on line 34 administration Materials & Commodities has been doubled.

Ski Patrol: in addition to the extra staffing added for summer operations and bringing Heavenly valley inbounds, an additional \$35,000 has been added in minor equipment in years FY24 & FY25 to account for new avalanche blasting equipment. Materials and commodities have been also increase by \$30,000 to pay for addition explosives and summer material for summer first aid operations.

Lift Operations: In addition to staffing for the Gondola and running Hooter on weekends for mountain biking starting in FY26 there has been an increase in Materials and Commodities by \$20,000. Uniforms and safety equipment has been raised by \$7,000.

Mountain Maintenance: The big increases in the Mountain Maintenance are in the following. Fleet gasoline has been tripled to pay for addition summer travel in mountain trucks and four wheelers. The Gasoline and Oil line refers to Diesel Fuel needed to run the generator to power the Gondola for the first couple of years until it can be connected to grid power. This line has been increased by \$130,000. Materials and Commodities has been raised by \$35,000 doubling the existing budgeted amount.

Lodge Operations: The increases in lodge operations will be found in small increments for Electricity for the additional use of Fish Creek Lodge. Larger increases in electricity happen in FY 26 when weekend operations of Hooter are contemplated. Expense for propane is tripled to account for powering the kitchen equipment during the summer months.

Snow Sports School: Summer operations does not have much effect on this department until FY26 when mountain bike instructors come into the mix. Small increases in winter labor are factored in increasing the total hours worked to accommodate for the increase in revenue.

Food service: The big increases here come in the cost of food product that falls in line 137 contractual services. This increases in proportion to visitation with projected food costs staying at an average of 25% of revenue. Materials and commodities also rise follow our increased visitation as miscellaneous food product not sourced through food contracts will fall in this category.

Ski Rental Shop: The big increases here come in Line 225 Rental Inventory. This accounts for increasing the size of the winter equipment fleet and then growing into a fleet of mountain bikes in FY 26. Retail soft goods also increase proportionately with visitation to account for the cost of goods.

Marketing: The big moves in the Marketing department come in an increase of \$30,000 in the advertising budget and an increase in the printing budget by \$15,000.

Building Maintenance: Increases here are seen on line 276 and 278 which account for pumping services from our Septic holding tank, water filters and chemicals for our water treatment plant.