MINUTES

MEETING OF FEBRUARY 9, 2015
Incline Village General Improvement District

The meeting of the General Manager's Diamond Peak Master Plan Steering Committee was called to order by General Manager Steve Pinkerton on Monday, February 9, 2015 at 3:00 p.m. at the Chateau at Incline Village, located at 955 Fairway Boulevard, Incline Village, Nevada.

ATTENDEES

Steering Committee Members present were Bruce Simonian, Al O'Connor, Charlie White, Bill Echols, Brian Hrindo, Judith Miller, Andrew Jaine, Eric Severance, and Shane Johnson. (Steve Pulver, Robert Olmer, Liz Harrell, Jess Jameson are absent)

Members of IVGID Staff present were Diamond Peak General Manager Brad Wilson, Parks and Recreation Director Hal Paris.

1. WELCOME

Deborah Prout reviewed where we have been and where we are going. High level themes we covered:

- Steering committee was put together by GM for the diversity of ideas
- Not bound by framing – can discuss and re-exam with open territory
- Brainstorm ideas where we want to end up
- Want to hold up agreement and disagreement – be true to opinions and output regardless of the agreement. Working assumptions.
- Hold off on going through the plan; want to better understand the driver of the plan.
- We wanted to understand origins of plan and what went into it
- We wanted to understand the financials
- Characteristics of incline village; agreed as a group the majority of us came for the recreation amenities whether or not we use them
- Diamond Peak attributes – value to community and real estate values
- Honor different opinions through this process

Bruce Simonian asked if the presentation will include this year's financials for 2014-15? Steve said prior years, but he said he can give up-to-date numbers as well. Bruce Simonian said he asked because of the weather patterns and it affected the business.

Bill Echols asked about the numbers being presented. Steve said these are 99% reflective of what happen each year from 1985.

2. Financial Presentation

Steve thanked everyone for allowing him to give this presentation. This gave him the opportunity to drill down and look at years back. 1976-77, was the first year we owned the ski resort, which had been the driest year; that year, it was one of the only ski resorts still open in Tahoe and they had a good revenue year.

Overview of the District Venues:

- District established in 1961
- Originally focused on water and wastewater
- Public recreation added in 1965
- Beaches purchased from Crystal Bay Development Company (CBDC) in 1968
- 1968, $50 Rec Fee for debt service
- CBDC dissolved, Recreation Fee established for debt service and beach maintenance
- Golf Courses, Ski Incline and Bowling Alley purchased in 1976. Recreation Fee increased to cover purchase costs
- Core park area purchased in 1977
- Tennis courts built in core area in 1978
- In 1991-92, the Recreation Center was built using mostly construction tax funds

Community Characteristics:

- Approximately 7,000 year round residents
- Less than 50% of units occupied year round
- About half of the year rounds and renters
- Average age is 46
- 17% of population under 18
- 18% of population over 65
- 21.6% of households have children at home

District Characteristics:

- 8,180 Parcels subject to Recreation Fee
- 7,743 Parcels subject to Beach Fee
- 534 Commercial parcels
- 2,535 Owner occupied parcels

- 1,314 Renter occupied parcels
- 3,933 Seasonal units
- Estimate that 30 percent of Owner occupied parcels are also seasonal
- Assets/Debt:
- We are in very good shape currently; good stewards of your money.
- Debt outstanding has been reduced by ½ since 2008.
- 20,737 Picture Pass Holders
- 2,438 Picture Pass Holders are renters
- 5,790 Punch Cards
- 953 parcels with no passes or punch cards
- Approximately 500 hotel rooms with 1,000 visitors on holiday or summer weekends
- Estimate at least another 1,000-2,000 visitors in rental homes on holiday or summer weekends

Assets/Debt

- Unrestricted Net Position of $20.2 million
- Total Indebtedness of $14.0 million
- $7.0 million in utility debt, $456,000 payable in current year, remaining terms from 2023-2032
- $7.0 million in recreation debt, $1.8 million payable in current year. One bond terminates this year, one in 2018, and one in 2023
- Debt outstanding has been reduced by 50% since 2008
- Ski portion of debt is $1.2 million in current year, $924K from 2016-2018 and less than $25K from 2019-2023

Budget:

- Utilities: $11 million in annual costs, self supporting
- Internal Services fund: $2.1 million for fleet, engineering and buildings supported by other funds
- Community Services Fund: $17.7 million supported by User Fees and Recreation Facilities Fee
- General Fund/Workers Comp: $4.2 million supported by property taxes, combined taxes and other funds
- Beach Fund: $1.5 million supported by Beach Facilities Fee
- Total Budget of $36.4 million in Fiscal Year 2014-2015

- Five Year Capital Improvement Plan (CIP): Current year proposed expenditures of $8.1 million included in Fund Budgets. Five year plan is $52.7 million

Major Funding Sources:

- User Fees: $11.6 million for Community Services, $650K for Beaches, $10.6 million for the Utility Fund
- Property Taxes: $1.4 million for General Fund
- Consolidated Taxes: $1.25 million to General Fund
- Interfund Services: $2.68 million, primarily to Internal Services Fund and Workers Compensation
- Central Services: $1.1 million to the General Fund
- Facilities Fees: $5.97 million to Community Services Fund and $774K to the Beaches

Facilities Fees:

- Established in 1968 to fund Debt Service and Operations for beach purchase
- Doubled from $50 to $100 per year per parcel when Golf Courses, Ski Incline and bowling alley were purchased
- Gradually increased over time for inflation and as additional amenities were added to the District
- Currently at $830; has been this amount for the past five consecutive years
- Increased from $275 in 1998 to $830 in 2010
- Portion of Fee for beaches only charged to those with beach privileges; current Beach Fee is $100
- Facility Use by pass Holders/Guests: (excess capacity)
- Champ: 69%
- Mountain: 56%

Facility Use by Pass Holders:

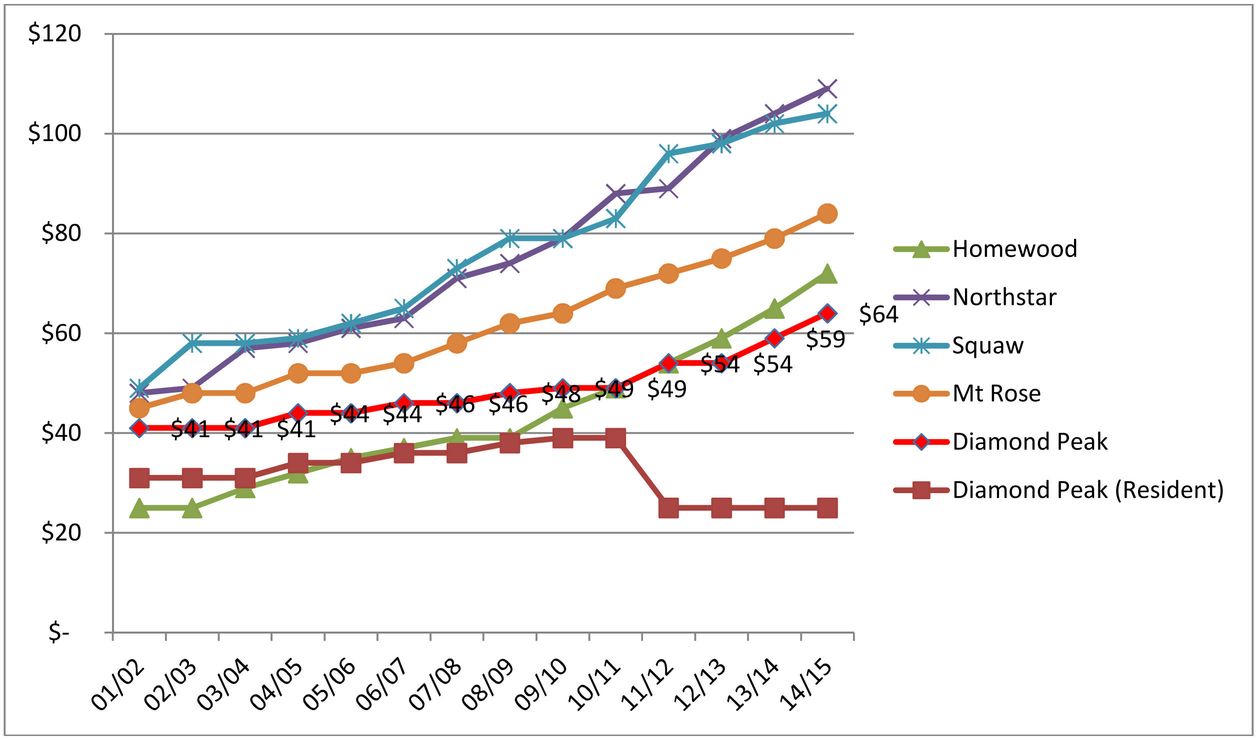
- Champ Golf Course: 69% of 23,500 rounds
- Mountain Golf Course: 56% of 14,000 rounds
- Chateau: 48% of visitors to events
- Aspen Grove: 68% of users
- Recreation Center: 80%
- Parks: 69%
- Tennis: 90%
- Beaches: 100%

- Diamond Peak: 20%

Facility Use by Pass Holders
- Championship Golf Course: 2,625 pass holders/1,775 parcels
- Mountain Golf Course: 2,373 pass holders/1,533 parcels
- Recreation Center: 3,891 pass holders/2,372 parcels
- Tennis: 394 pass holders/304 parcels
- Beaches: 14,588 pass holders/5,493 parcels
- Diamond Peak: 2,879 pass holders/1,901 Parcels

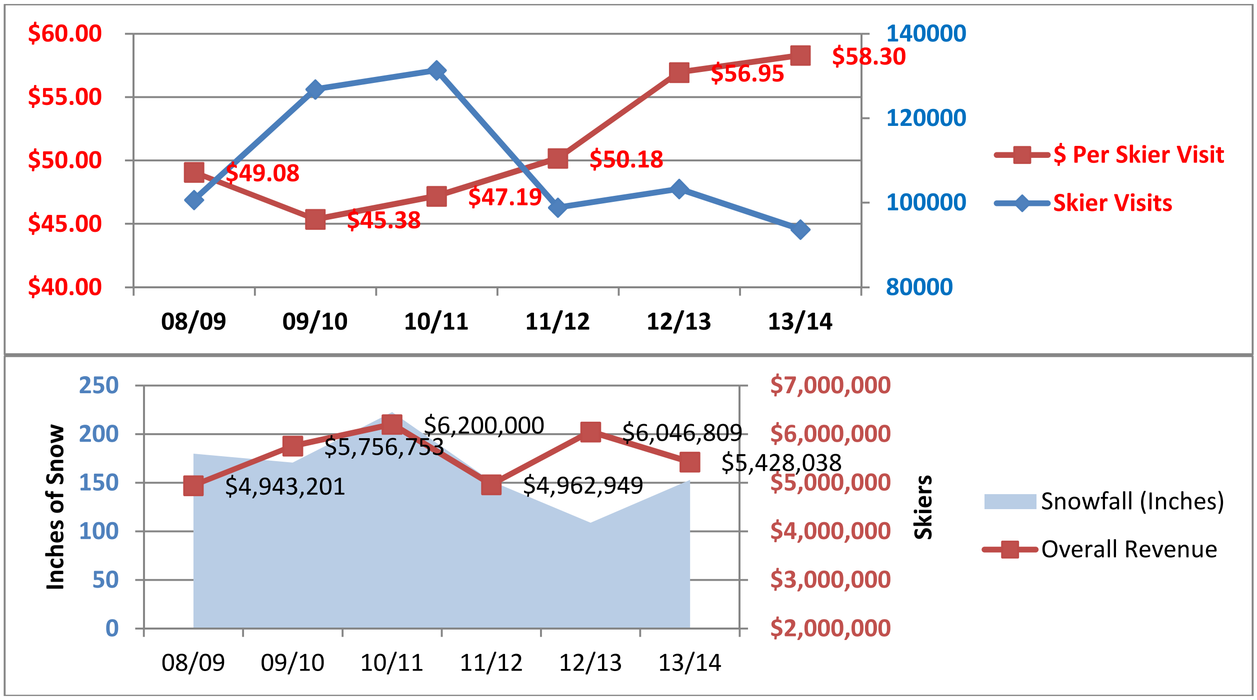
Ski Budget:
- 121 operating days
- 115,000 skier visits (108,000 median over past 30 years) – conservative approach.
- 250 staff positions, converts to 60.4 Full Time Equivalents
- Downhill ski and snowboarding on 655 skiable acres, 30 runs, 7 lifts
- Snowmaking on 75% of the terrain – first ski resort on west coast
- Adult Ski School and Children's Ski Center
- Ski Rental Shop
- Food and Beverage
- Daily Shuttle and Hyatt Shop for rentals
- Snowflake Lodge and Retail Shop run by concessionaires

Year-On-Year Competitive Pricing:
- Wants to invite Tim from SNC to come and speak about ski resort operations and management. He will be a good neutral 3rd party perspective.
- Helped the market that we focus on beginners and kids. Focus on families.
- Started using differential pricing during peak. We went from flat to holiday pricing. When the demand is high, we charge more.



- Correlation between skier visits and snowfalls.
- During peak season, we had snow which explains the peak in revenue.
- We are heavily dependent on the Holiday season.
- Eric Severance said front end loading of ski season is industry wide.
- Brad Wilson said it’s critical to be open on time.
- Steve Pinkerton said the temperature was above seasonal warmth during November and December. We are temperature dependent.
- Changes in rentals and ski school revenue.
- Food and beverage was steady over time. Limitation is on the size of the lodge. That’s why we open the bbq outside.

Year-on-Year Snowfall versus Total Revenue



Major Operating Revenue Sources:

- $6.7 million in Operating Revenues
- $3.6 million from Lift Tickets
- $1.2 million from Ski School
- $839K from Rentals and Repairs
- $805K from Food and Beverage
- $320K from Hyatt Lease
- Also receiving $998K from Recreation Fee for payment of Debt Service
- All allowance are taken of the $6.7 (150,000) – gift cards from Costco.
- We don’t factor in the discount. $100-200K discount

Major Operating Expenditures

- $5.2 million in Operating Expenses
- $2.7 million in wages and fringe benefits
- $1.4 million for services and supplies
- $167K in insurance

- $558K for utilities
- $235K for cost of goods sold

Shane Johnson asked about the G&A. Steve said $3.8 million in total is incurred by the General Fund, 1/3 of that is charged back to each function. We are looking to change the way we do our accounting on this.

Gerry Eick spoke about the Central services cost allocation for the Community Services Fund is for Human Resources and accounting only. It's paid by Community Services as a whole, it's not allocated back to each venue. That $5.2 does not have general administrative allocations. Of $1M of Central Services Costs Allocation, 25-30% is allocated to ski. It's driven by dollars spent and FTEs. We are talking about taking another layer of allocation. Workers compensation is included in fringe benefits. DP pays their own special rate for workers comp because it's so much higher – pays 3X more than other venues.

Shane Johnson asked about the G&A - $300K; that takes place but not formally allocated and should be there. Gerry said if we changed the way we allocated it. The facility fee is positioned in the community services fee which help pay for that.

Steve Pinkerton needs to show what the residents receive as discounts. We are doing modifications to our accounting system and this is one that we need to track.

Bill Echols asked about the standard profit/loss statement. Is Depreciation in operating expenses? Does depreciation show up at all? Gerry said no, it's not an expenditure. We show them as capital expenditure. This is a cashflow recap, not a P&L recap.

Steve Pinkerton said after he reviewed the last 30 years, it seems that every 5 years, we review how we report the numbers. All the numbers are there, and there have been many requests over the years to report them differently. There are standards we need to meet on how we do our accounting.

Gerry Eick said depreciation is averaging at $1m/year for the ski resort on average.

Steve said the reason why he wanted to do a 30 year review, he wanted to see what we spent over time and that's a true reflection of what's going in and what's coming out without looking at debt service.

Benchmark Assessment:

- Compared operational characteristics to comparable ski areas in the region. 5 other ski resorts similar to us. Try to compare apples to apples as much as possible.
- Diamond Peak Ski Resort:
- Exceeded average in most categories
- Much higher in revenue per skier visit
- Well above average in Operating Profit Margin
- Below Average in Direct Labor Costs

Brad Wilson said many of these resorts haven't invested in snowmaking like we have. They rely more on natural snow. We had a $2.5m loss last year. This year, we opened late, however, we had a record December in revenue. We met budget in January; second best January. February hasn't had a great start. Skier visits is 10% ahead from last year. We are $439K up from last year.

Capital expenditures:

- $1.6 million for CIP including two grooming vehicles ($700K) and Culvert Repairs ($250K), Master Plan ($250K) and new Point of Sale System ($100K)
- Five Year CIP of $9.1 million, not including Master Plan. Major Expenditures in future years include $3.6 million for culvert replacement, $1 million for snowmaking replacements, $960K for pavement maintenance, $800K for ski rental equipment
- 20 year CIP is for $18.8 million
- $1.06 million in debt service principal
- $182K in debt service interest

Shane Johnson asked about 'other' operating expenses. Why such a big variance? Gerry Eick said he will look into it.

Brad Wilson said for '11/12, one reason for the variance was there was no revenue for retail in the comparison and no misc operating. That is why there is a lower amount for the other resorts. These are the numbers we get from NSAA. He advised the group to look at the last two years and how the numbers line up;

Al O’Connor said it makes this worthless. Steve Pinkerton said we will check into it. The other numbers are consistent.

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Steve asked why in some reports state $1.4m and other says $1.6m in CIP. Gerry said the Master plan of $250K was supposed to be paid out of fund balance and has been netted from the $1.6m that appears in some reports.

5-year CIP of $9.1 million, not including Master Plan. The biggest is the culvert in upper parking lot and drains out by bottom of Fairview. It needs to be replaced. There are a lot less invasive ways to repair and replace; might not have to dig up the parking lot. 20 year CIP – no new upgrades, but they identified when lifts and snow cats need to be replaced. We will talk more about that in cashflows. 91% debt service is for principle when you have 10 amortizations. Most of it is for ski center and snowmaking.

Brad said most ski resorts don’t have 10 year payback in debt servicing. It front loads debt services for debt service. Shane Johnson asked when debts come off the books, can we reduce the debt fee? Steve said that is one options, but we have to see other venues might need attention. Need to find a balance between Rec fee and improvements. Bruce Simonian said hopefully if we can lower it without it having it go back up and down. There is an emotional rollercoaster. Steve said Truckee Donner pays $1,600 a year for less than we have. Angel fire is over $2,000.

Budget Summary (current year 14-15):

- $6.7 million operating income
- $5.2 million operating expenses
- $1.5 million EBITDA

- $1.0 million from Recreation Fee
- $1.4 million in Capital Improvement Plan
- $1.2 million in Debt Service

30 year review of income and expenses:
- Planning for ski area expansion began in 1985
- Expanded ski area opened in Fiscal Year 1987-88
- Reviewed all financials over that time period
- Looked at numbers in nominal terms and adjusted for inflation
- Financial reporting varied over that time, some numbers are close by not perfect
- 1989: allowed snowboarding
- 1987: A lot of great planning and discussion of expansion; drought didn't run crystal lift hardly ran that period. Snowmaking was critical and money was focused on that.
- Mid 90s – Lodge Pole and Lakeridge were updated.

30 year summary:
- Only one year: 1989-90 when EBITDA was negative
- Average EBITDA as a percentage of revenue was 18%
- Median EBITDA was $705,494
- Median EBITDA adjusted for inflation was $889,500
- Median Skier Visits of 108,105
- Revenue per skier was $15.75 in 1985, $59.30 in 2014

30 year capital expenditures:
- $35 million in capital expenditures
  - 87 Mountain expansion
  - Early 90s snowmaking
  - 95-96 Lakeview and Lodgepole Replacement
  - 99 Snowmaking upgrade
  - 2003 Crystal Express high speed quad
  - 2008 Lodge expansion
  - 2009 Snowmaking upgrade
  - 2010 new skier services building
- $54.2 million in current dollars
  - Higher than general inflation rate

Steve said he asked himself, why didn't we do the skier services building and lodge sooner? The residents' priority was cutting the lift time; therefore, they wanted a high speed quad lift. That was important to the local skiers at the time which was the chairs and the snow. Eric Severance said there was deviance from the strategic plan. The town said they wanted a high speed chair. Steve Pinkerton said the emphasis was on the locals' preference. Eric Severance said they had meetings, workshops and board meetings to gather the communities' concerns and preferences. When Crystal Quad was installed, it was just before mainstream detachable technology.

Summary of Costs and Expenditures:
Capital demands will be much less in the future than in the past. We are in good shape.

- $22.5 million in operating income over 30 year period
- $35 million in capital investment during same period of time
- $30 million in operating income when adjusted for inflation
- $54 million in capital investment when adjusted for inflation
- Significant portion of capital investment has long remaining life including Lodge, Skier Services Building, Crystal Quad and Snowmaking Infrastructure

10 Year Analysis:

- 105,239 average skier visits
- 4.86% annual increase in revenue per skier
- 5.25% annual increase in expenditures per skier
- $9.9 million in net income
- $15.5 million in capital expenditures including expanded main lodge and skier services building and upgraded snowmaking system
- One payment left on 2004 bond, 4 more payments on 2008 bond, eight small payments left on 2002 refinanced bond
- Total debt service during period of $7.6 million

Next 14 years:

- Projecting 107,300 skier visits per year (below 30 year average)
- 3% annual increase in revenue per skier
- 3% annual increase in expenditures per skier
- $17.8 million in net income – which is 16% percent EBITDA on Revenue, 30 year average of 18% and ten year average is 16%
- $15.4 million in capital which is consistent with 20 year plan
- No New Debt Service anticipated, most of debt paid off by 2018, balance in 2023

- After 2018 Debt is paid, net cash flow including debt service and capital expenditures for final ten years is approximately $6.1 million
- Total debt service during period of $4.1 million

Andrew Jaine asked is this just the ski area as is.

QUESTIONS:
Shane Johnson asked about a summary financials of golf, rec center; what are the revenues and operating expenses for each of those. They each still have financials. Are they making money? Steve said the rest of our venues are very different from DP. Golf has had a lot of discussion with finding the balance with market rate and resident rate and impacts. Brian said that doesn't affect the goal group and this project.

Shane Johnson said we need to know how the Rec fee is getting divided up amongst other venues. When taking on additional debt, we need to understand the overall finances. Brian said we need more months of meetings to discuss this. Steve said we can come early to go over the other financials; 2:30pm at the next meeting to go over some basics of the finances for the district. We can email you the pertinent pages of the budget and review them with you.

Bruce Simonian said this is an overview; we have looked at the DP in 86' and there were shifts by the time it was completed; we need to take a bigger view in a long term in order to do the most appropriate steps. We made mistakes with Chateau and other venues. The budget drove and it didn't serve the community. Moving forward, we need to do it with the most foresight as possible. We changed the fix grip to detachable on crystal quad. We should have had better counseling and better foresight. We want to look into the future. We want to make sure we make the right decision. Do we have enough information? When we did the snowflake lodge in the past, we don't have enough seating now. Make sure the project is appropriate in the future. Deborah Prout asked if we have enough industry trends to make good decision. Steve said we are bringing in Tim to the next meeting so we can to ask him.

Charlie White asked about the debt service come from Rec fee for DP? Steve said there is both credit and debt in the Rec fee for DP. Our capital is covered by cash flow. Gerry said part of the debt service is paid out of cash flow and part out of Rec fee. Bonds had a revenue pledge; there was a promise. There has been time in the past, when operations isn't enough to cover those so we might have to use rec fee to cover those projects. We try to let operations cover.

Steve said we haven't always made the best business decisions, but we also listened to the community. It's been the desire of the community to maintain the golf courses as maintained more as a private course, not a muni course. There is a anticipation of level of service and what they are willing to pay.

Al O'Connor asked if you don't anticipate a growth in skier visits? The industry isn't growing, its a market share. It's been consistent over time. That would drive parking and restaurants planning. Is that a solid assumption? Steve said we are taking 30 year median approach. There is potential to take approach to increase visits, but there are other tradeoffs.

Eric Severance said if you push marketing and utilization to maximize in growth skier visits and there are impacts, tradeoffs, accessibility to locals and other issues and investments to flow to do that. It's a balancing act of capture rate, yield, dollar per skier visit and ultimate growth. For conservative/government owned, using the median is good for being a government. If you challenge the ski operation at DP, you might have a wish for/strive figure in skier visits, not overly agreesive.

Andrew Jaine said he said he was confused about the projection over the length of time. Are we not so dependent on snow? The great years with snow, lots of people have come. There has been a trajectory of our snow; is it valid to project that the average that has happen over the past 20 years that will happen the next 20 years. When looking at the Master Plan, he said he thinks of it as an insurance policy. The will be significant reduction in snowfall in the future. Without this, we are doomed.

Steve said we have attempted to counter this lack of snow with snowmaking. We met our budget on rentals and lessons. Its food and beverage and tickets where we have lost money. You can make it up on the expense sides. We can use a Model where we never get high highs, but try to mitigate the lows. Even in horrible years, we had a reasonable cash flow. We have tried to make it mid-range and reasonable assumptions.

Andrew Jaine asked if you have made the alternative with a trajectory of the snow declining. 5 year plan will mitigate those scenarios.

Steve said in the master plan, we need to look at the summer operation. There is more risk in this 10 year project. We want to hear from you. We don't want to be wildly optimistic or wildly negative. Charlie White said he said he would like to see a variety of projections. What if we don't get a snow and it doesn't drop below 30 degrees. We need to be careful and have a backup plan. Steve said Tim will help us understand the alternatives. We are looking at this objectively. Based on past experience, we have a margin of error, but that can go away quickly. Al O'Connor said we can't keep talking about climate change. The ski industry is flat; it's not growing. Northstar/Squaw is experiencing its flat. Eric Severance said it's holding flat. We are down from the peak. That industry is becoming more innovating. Steve said we are dealing with existing deficiencies. The last 25 years of numbers, it's flat. In the 70s, they didn't have a lot of ski schools. Eric Severance said it's not just the offerings, said its change in demographics. They make a bigger commitment into this endeavor which has helped. Eric said strategic planning and master planning and looking at utilization of DP. We have to mitigate the forces that are changing us and opportunistic that we can take advantage of those.

Andrew Jaine said it's the justification to those homeowners to those who don't want this. Strong justification; pray for snow. We don't run out of ability of skiing, but you might have to postpone your season and shorten it. This plan can mitigate the shortening it by using all of our venues.

Andrew Jaine, Al O'Connor, Shane Johnson said they won't be at the next meeting

Steve said they won't have a 2:30pm session. Materials will go out by email.

Al O'Connor said he is concerned we won't cover what we will need to cover and run out of meetings. Deborah Prout said by the end of the next meeting, we are bringing the outside stuff to a close and move on about winter and summer use plan.

Steve said at the next meeting: Industry trends head of resort management, Tim. The meeting after the next meeting will be summer use financials.

Respectfully submitted,

Misty Moga