

July 11, 2016

To: Town of Camden Select Board

From: Chris Morong

Subject: 2016/2017 Snow Bowl Budget Committee – A Different Perspective

Let me start off by saying that my family represents 4 generations of skiers at the Snow Bowl. I learned to ski on the old rope tow at 5 years old, and have witnessed first-hand the many changes over the years. I am an ardent supporter of the Snow Bowl and will continue to be, in hopes that another 4 generations of my family will continue to ski at the Snow Bowl.

The Budget Team was charged with bringing an independent view of the Snow Bowl finances. The purpose of the Budget Team was to work with the staff to review the FY17 Snow Bowl budget, analyze costs and revenues, consider opportunities for cost containment and revenue growth, recommend a budget to the Select Board, and bring forward any other recommendations the Budget Team thinks the Select Board should consider. Our duties as adopted by the Select Board on May 10, 2016 were as follows:

Work with the Snow Bowl staff, Finance Director and Town Manager to:

- 1) Review the FY17 Snow Bowl budget
- 2) Analyze actual and projected costs and revenues
- 3) Identify essential expenses (the minimum necessary to operate a community ski area safely and efficiently)
- 4) Consider opportunities for cost containment and revenue growth
- 5) Develop a balanced budget based on an average winter that breaks even
- 6) Identify and consider various scenarios such as how to respond to a difficult season if revenues and expenditures are not expected to meet projections.
- 7) Recommend the FY17 Snow Bowl budget to the Select Board
- 8) Bring forward any other recommendations the Budget Team thinks the Select Board should consider.

The following outlines my concerns that were brought up to the Budget Committee on more than one occasion:

Free Individual and Family Season Passes

During the 2015/2016 ski season, 325 season passes (individual and family) were provided to employees, ski patrol, coaches, and mountain stewards. **These free season passes represented 20% of the total number of season passes and represented significant lost revenue.** The value of these season passes were \$89,000 as determined by Management.

My recommendation was to provide individual (not family) season passes to the Ski Patrol and Full Time Employees only. Part Time Employees, Race Coaches and Mountain Stewards should pay for their individual and/or family passes. **Mountain Stewards and Race Coaches are considered volunteers. It is important to note that a volunteer is “a person who performs a service willingly and without pay”. If we are paying them with free individual/family passes, then they are not truly volunteers.** I have confirmed with the Penobscot Bay YMCA that they do not provide free memberships to any of their volunteer coaches and it was my recommendation that these free passes be kept to an absolute minimum.

Management’s recommendation is to charge family member’s \$50.00 per season ticket which represents \$7,500.00. This means we are still giving away \$81,500 of season tickets.

$$(\$89,000 - \$7,500 = \$81,500)$$

The taxpayers and voters from the Town of Camden were very generous in supporting the Snow Bowl at the last Town Meeting, but I don’t think they would support \$81,500 in free season tickets. The argument you will hear is that if we don’t provide these free passes, then we won’t get the volunteers. My response would be to actively recruit volunteers who are willing to assist without remunerations. It may not be easy, but if The Penobscot Bay YMCA can do it, so can The Camden Snow Bowl.

Budgets Created with Inaccurate Historical Data

It was stated and confirmed at the July 7th Budget Committee Meeting that the proposed FY17 Budget was created by starting with the FY16 Budget.

The FY16 Budget was created in part by reviewing and analyzing historical data. The data used for FY13, FY14, and FY15 were not year-end figures, (most likely they were from the beginning of April instead of June 30th) and as a result, revenues were overstated and expenses were understated, resulting in a flawed budget for FY16. **Since the FY17 Budget was created using the FY16 budget as a starting point, then the FY17 budget is flawed as well.**

In FY13, Revenue was overstated \$8,565 and Expenses were understated by \$39,558 \$48,123

In FY14, Revenue was overstated \$819 and Expenses were understated by \$48,425 \$49,244

In FY15, Revenue was understated \$166 and Expenses were understated by \$4,913 \$4,747

Although these inaccuracies were repeatedly brought to the attention of Management and The Budget Committee, both verbally and in memo form, these inaccuracies, for whatever reason, were ignored and were not taken into consideration for the FY17 Budget.

The initial proposed FY17 Budget had expenditures totaling \$912,575. Included in these expenditures was \$15,000 for Toboggan Nationals Labor. Management indicated that this represented Snow Bowl employees preparing for the Nationals the week prior to the event. I asked if this amount was removed from the Alpine budget, because if it wasn’t, then \$15,000 was in the budget twice. The response was no, it had not been removed, and yes, it was budgeted twice in error. This means the initial proposed expenditure budget should have been \$897,575, not \$912,575.

Please consider the following:

*\$15,000 for Toboggan Nationals Labor divided by an average wage of \$15.00 per hour = 1,000 hours
1,000 hours means that 25 employees spent 40 hours each preparing for the Toboggan Nationals. Is this logical and does it make sense?*

Failure to Analyze Actual and Projected Costs and Revenues

Expenses:

The Budget Committee did not meet my expectations. It was my understanding the Committee would review the various departments at the Snow Bowl and budget line items within those departments. This exercise did not happen.

The one (and most important) area I tried to bring up for discussion was Labor costs (excluding Benefits). Labor costs have steadily increased year after year. For example, Alpine Labor increased \$86,805 from FY15 to FY16 and the initial FY17 budget for All Labor Costs at \$432,500 is \$47,740 more than was budgeted last year. The following illustrates how Total Labor Costs have steadily increased over the years:

FY13 Actual - \$347,235 FY 14 Actual - \$374,094 FY15 Actual - \$290,498 FY16 Actual - \$385,270

FY16 Budget - \$384,760 Initial FY17 Proposed Budget - \$432,500

When asked why the initial FY17 Budget called for an increase of \$47,740 over the FY16 Budget, Management's response was "I didn't budget properly in FY16".

Snow Bowl Statistics from 2008 – 2016 indicate that there were 8 Full Time Employees and 91 Seasonal Employees in 2016. Management informed the committee that the 91 Seasonal Employees equaled 37 Full Time Equivalents. In a memo to the Budget Committee I recommended that we reduce the number of employees by 2 Full Time Equivalents. For whatever reason, the Budget Committee chose not to discuss labor costs (or any other expenses for that matter) in any detail other than to accept Management's statement that if he couldn't have what he budgeted for then he would be forced to close the Snow Bowl on Weekdays and eliminate the 4th Grade Ski Program. **Management's statement is the easy way out and is not indicative of prudent management of the Snow Bowl.**

It is interesting to note at the Select Board Workshop where the FY16 Snow Bowl season was discussed, the question was asked – **"What were the financial impacts/results of the weather and shorter season?"**

The response was: *We had higher operating costs for snowmaking, electricity, and snow making and grooming personnel due to trying to overcome the lack of natural snow. The primary reason for the operating loss was on the revenue side rather than expenditures.*

Let me address this statement with actual figures provided by the Town Office:

	FY15	FY16	Difference
Snowmaking Electricity	\$59,743	\$46,730	-\$13,013
Other Electricity	\$25,878	\$40,916	+\$15,038
Snowmaking Labor	\$17,360	\$26,058	+\$8,698
Grooming Labor	\$12,716	\$6,396	-\$6,320
Totals	\$115,697	\$120,100	+\$4,403

These operating costs only account for an increase of \$4,403 from FY15 to FY16. **The numbers do not confirm or validate the response given.**

Revenues

Daily Ticket Prices/Revenues were discussed and a revised pricing scheme was provided after it was pointed out to Management that in order to obtain \$305,000 in daily ticket sales with an average ticket price of \$20.00 then 15,250 daily tickets would need to be sold in FY17....an amount that would clearly not be obtainable. In a separate meeting with Management, I requested an analysis be completed to determine the amount of revenue The Snow Bowl would receive based on 12,200 tickets sold, at the revised pricing scheme provided by Management, and based on the same mix/percentage of ticket sales as FY16. This was not completed by Management, so I took it upon myself to complete the analysis.

The results were that the revised Ticket Prices would result in daily ticket revenue of \$272,082.31.....not the \$305,000 budgeted. A deficit of \$32,917.69.

This deficit caused the committee to vote and approve a reduced revenue budget of \$890,000 at the June 22nd meeting. (\$922,000 - \$32,000) which in turn meant that in order to have a balanced budget, expenditures would need to be \$890,000 as well.

The Budget Committee then reversed course at the July 7th meeting and approved projected Revenue for FY17 of \$920,00, which in turn meant that expenditures would be \$920,000.....**\$22,425 more than the initial proposed FY17 Budget.**

$$\$912,575 - \$15,000 \text{ (Toboggan Nationals Labor Error)} = \$897,575 + \$22,425 = \$920,000$$

This is not realistic based on historical data:

The Best Revenue Year was FY15 at \$793,091 (The First Year after Re-Development)

The Average Revenue for FY14 and FY15 was \$776,816

The 5 Year Average Revenue for FY12 to FY16 was \$776,151

In order to achieve daily ticket revenues of \$305,000 with 12,200 tickets sold, ticket prices will need to increase 17.5% across all ticket categories.

Consideration should be given to a potential drop in ticket sales due to a price increase. On the surface, a price increase may seem like an easy fix, but it may not be the prudent thing to do at this time. **We cannot and should not place the entire burden of balancing a budget solely on the backs of the skiing public while not attempting to control expenses.**

We should be budgeting for an average year, instead of budgeting for a "best year" without any history to back up a "best year" scenario. Specifically, one of our duties was to

Develop a balanced budget based on an average winter that breaks even

It was stated by Management at one of the first Budget Committee Meetings, that FY14 was an example of an "average" winter.

Revenues were \$773,565

Expenses were \$770,906

Profit was \$2,659

To put the proposed revenue number into perspective, \$920,000 of revenue based on a 60-day ski season means that **the Snow Bowl on average must generate \$15,333 for each and every day of the 60-day ski season.** If season ticket sales of \$200,000 are subtracted from \$920,000, that means \$720,000 must come from all other sources of revenue (Daily Tickets, Lesson Income, Race Income etc) **or on average \$12,000 per day for each and every day of the 60-day ski season.**

As a Select Board, you must ask yourselves....Are these revenue projections reasonable and obtainable?

It is important to remember that the Snow Bowl is much different than a typical municipal department such as Public Works. Most municipal budgets are created by looking at expenditures, keeping them reasonable, and then taxing our businesses and property owners. It appears, that the initial proposed budget for the Snow Bowl was created by looking at what Management wanted to spend and then making the revenue line items fit the expenditures. The exact opposite should take place.....determine what revenues are reasonable and obtainable based on historical data and future actions to enhance revenue and then work to make the expenditures fit the revenue. This process may result in a budget deficit, and that would be acceptable provided expenditures are scrutinized, minimized, and the Town approves the potential deficit in advance.

Donations/Grants/Sponsorships/Town Funds

Donations, Grants and Sponsorships should be committed and received by December 1st, if not, then documentation needs to be provided proving the funds exist and a date of when they will be given to the Snow Bowl.

To illustrate this point, I once again refer to the notes from the Select Board Workshop.

To broaden our revenue base, we sell sponsorships. However even sponsorship revenues were down largely due to the weather. Companies felt they would not get full value since there would be fewer people skiing due to the weather.

The FY16 Sponsorship Budget was \$5,000 and the amount received was \$0.00. Why weren't Sponsorships committed and received prior to December 1st? You may receive an answer stating the we did receive sponsorships, but the money received was applied to reducing expenses. I don't believe this practice would be considered adhering to GAAP – Generally Accepted Accounting Principles. To take this one step further, it was further acknowledged by Management at one of the Committee's first meetings that electrical work and work for the new logo design was paid for by bartering for season tickets. **These practices do not provide for accurate accounting of revenues and expenditures and should cease immediately.**

When preparing and reviewing a budget, the budget should be looked at in terms of Revenue from Operations (backing out donations, grants, and sponsorships) as these funds may not always be available. Revenue from Operations are illustrated below:

	FY13	FY14	FY15	FY16
<i>Revenue</i>	\$665,634	\$772,564	\$793,091	\$640,325
<i>Expenses</i>	\$700,829	\$770,906	\$879,051	\$916,942
Operating Profit/Loss	(\$35,195)	\$1,658	(\$85,960)	(\$276,617)

*The Budget for FY16 called for a Profit of \$20,016, however the **Operating Loss was (\$19,984).***

*The Initial Budget Proposed by Management for FY17 calls for a Profit of \$9,425, however, the **Operating Loss is (\$35,575).***

Cost Cutting Options and Triggers

The Budget Committee did spend some time discussing what would happen if certain budget targets were not met and if The Snow Bowl was not able to operate during the prime Christmas Vacation Week.

Two of the options included the following:

Shut down during the week and operate weekends only.

Shut down Wednesday and Thursday and operate Friday, Saturday and Sunday.

If we are not open during Christmas Break due to weather, and we decide to shut down during the week, and we refund season pass holders a portion of what they paid, what's going to happen if it starts to snow mid-January through the end of February. I asked this question at the last meeting and the response was "well, we would re-open".

Let's think about this for a minute. If we close weekdays, we should offer season pass holders at least ½ of their money back (\$100,000). After those refunds, and it starts snowing, are we going to ask those pass holders to pay up again? What about our employees? If we layoff many of our employees, how can we just "re-open". Many of these employees may not be able to come back if they find other jobs. What will happen to next year's season pass sales if we shut down weekdays this year?

If Management and the Select Board implement these triggers, then you must be prepared to suffer the consequences of your actions. These triggers are not realistic or logical, and if implemented, you might as well close the doors to the Snow Bowl for good.

We need to be consistent with operating hours. A business with inconsistent hours and operations is doomed for failure. The Snow Bowl is weather dependent and it's simply a risk of doing business that we must accept, just as our season ticket holders do when they purchase their tickets prior to opening day.

Summary

As you can see, mistakes made in the budgeting process have not been addressed and the committee failed to properly analyze actual and projected costs and revenues. I would encourage the Select Board to ask the Committee, "Can you please describe one-line item within any department that you discussed and recommended a reduction?" ***The honest answer will be "No we can't".***

In summary, in order for a reasonable, logical, and common sense budget to be put in place, my recommendations are as follows in order of priority:

Labor Costs need to be reduced by 2 FTE's at a minimum

Free season passes need to be limited to **individual** Ski Patrol and Full Time Employees only.

All Donations/Grants/Sponsorships need to be documented and verified if not received in full by December 1st. Otherwise, adjustments to the budget need to be made to account for any amounts not received by December 1st.

A price increase may be needed, but should be a last resort and should be small amount (not 17.5%) given the sentiments of many of the taxpayers and skiers in Camden.

These recommendations will not be easy, but are necessary in order for the Snow Bowl to work its way back to fiscal health. While Labor is the single most controllable cost, it is not the sole solution. Other expenses still need to be reviewed, analyzed, and cut where it makes sense. As a point of interest, when Management was asked what cuts he had made, one response was that he was not going to replace some of the night skiing bulbs that had burned out. **Failure to replace and/or repair night skiing lights is a huge liability and risk to the Town of Camden.**

While it is hoped that the Snow Bowl will break even or sometimes even make a profit, **the Snow Bowl should be viewed as a Cost Center to the Town.** We must keep in mind that the Snow Bowl is not Sunday River or Sugarloaf. While our trails have been widened, our snowmaking capabilities have expanded, and we've replaced the Big T with a Triple Chair, we are still the same small mountain on the coast of Maine that is susceptible to warm weather and rain.

Once a final budget is approved by the Select Board, only one-half of the job will be complete. The other half is for the General Manager, Town, Manager and Select Board to manage the budget with common sense and good management skills.

In closing, I recommend the Select Board not make a decision regarding the budget at the July 12th meeting. There is a lot to digest and think about, and it would be a disservice to the taxpayers and voters who have supported the Snow Bowl to make a quick decision considering the Snow Bowl budget that will not go into effect until fall. We have already gone past the original 6/30/16 deadline and a few more weeks will be beneficial to all those concerned. Once you have had the opportunity to spend the appropriate amount of time reviewing the budget and asking questions, I will accept and respect whatever the Select Board decides.

Thank you for your time and consideration of this memo.

Chris