Minutes
October 31, 2008
Vail

The meeting was called to order by CAST Secretary/Treasurer Tim Gagen at 8:25.

Vail Mayor, Dick Cleveland, welcomed the group and gave a description of the construction projects happening in Vail.

Introductions were made.

Ralf Garrison, The Advisory Group of Denver Inc., presented data from the Mountain Travel Research Program. This is a dataset started in 2004 that is designed to look forward and project travel trends six months into the future. There is both qualitative and quantitative data in the dataset.

MTRiP collects data from resort destination area rental properties and aggregates the data to present an overview of each resort and the mountain resort industry as a whole. As of September 30th, lodging last summer was off 8% while lodging rates held steady.

The forecast for winter 2008-09 shows lodging down 11% and rates declining slightly. The pace of reservations made in September was down by almost 20%. Christmas week is down slightly while the weeks before and after are up slightly.

The variance among the individual resorts is twice as much as previously seen. This means that there will be winners and losers among the different resorts this winter. With the dollar stronger, we should expect international visitors to decrease in number.

The travel price index has increased with lodging and transportation the main factors. Occupancy and enplanements are declining. The competition between the three airlines with hubs in Denver will help keep prices down and the number of seats available up.

Consumer confidence has fallen off the table and now stands at a reading of 38 on an index that started at 100 and was there a little more than a year ago. Americans have been spending 104% of their income to support their lifestyles and 70% of Gross Domestic Product comes from consumer spending.

The baby boomers and the millennial generation are the two biggest groups of consumers. However, they view marketing pitches in completely different ways. Not only should we expect to see the market segmented by age groups, we should also expect it to be segmented by credit score, the haves and have nots. People aged 50 and over control 50% of spending and 64% of household wealth.

Ski vacations have historically been thought to be discretionary like most other vacations, but there is some evidence of resilience not found in other vacations, as shown by strong skier visits in 2007-08 (60.5 million) even as consumer confidence dropped. A bright spot in the forecast for the ski industry is the mindset of “Joe, the skier” who says, “Skiing is not what I do, it is who I am.” People with this attitude view a ski vacation as a basic necessity not a luxury. Skiers and riders will be looking for value for the scarce dollars they spend on a vacation and loyalty to particular resorts will be tested.

Many ski towns participate in MTRiP through their local community destination marketing organization (DMO.) To get access to MTRiP, contact your local CMO or Ralf Garrison at rgarrison@mtrip.org.

Rob Katz, CEO of Vail Resorts, also gave a view into the future. People will be booking later than usual this year but numbers will still be down. However, this is from a high level. The economy has been very strong from 2002-2007 and the travel economy was one of the stronger sectors. The mountain resort market was a strong part of the travel economy. We are lucky on the supply and demand front; by comparison Las Vegas has had a huge increase in numbers of hotel rooms available while we have seen no major ski areas built in the last 20 years.

Vail Resorts plans to be very disciplined on expenses. Only expenses that drive business will be authorized. It is extremely important to maintain the level of guest experience. Even if business is down 15%, the other 85% expect a great experience for the scarce dollars they will part with to be here.

Vail Resorts has not been aggressive in acquisitions. This has resulted in a very strong balance sheet with no third party financing.

There are five stakeholders that need to be considered in every decision: guests, employees, communities, environment and shareholders. Guests do not differentiate between the town and the mountain; it is all one experience to them. Surveys have shown that the choice of lodging greatly influences a guest’s overall perception of the resort.

Lift ticket prices will be increased for the 2008-09 season and there will be no discounting of lift tickets. Lodging rates have gone up faster than lift tickets and there is more room for compression there. Real estate sales and development has come to a stop.

The Epic Pass is an unrestricted pass good at their five resorts and is sold for $579. The decision to issue the Epic Pass comes from the success of their Front Range pass program. There used to be a need to market constantly on the Front Range. The season pass deals were a tradeoff between marketing expense and lift ticket revenue.

It also has proven to be a stabilizing force on revenue with the money coming in before the snow fell. The Front Range customer was the most weather sensitive. Now, they were paying their money before weather was a factor. It also created great resort loyalty. Once a guest had the pass, it was unlikely they would ski elsewhere.

The Epic Pass is an attempt to build the same customer loyalty and early season revenue stream from the destination skier. The guest who might have skied a week at a Vail resort and a week somewhere else, will probably spend two weeks at Vail resorts if they have an Epic Pass.

Katz spoke to the decision to pull out of Colorado Ski Country (CSCUSA.) Vail Resorts is the largest Colorado tourism company in both winter and summer. Their market share is 40% of skier days and a larger percent of profitability. They decided to be a large sponsor of the Democratic National Convention because they thought it would help showcase Colorado. The ability to stage such a large event might even increase the odds of hosting an Olympics in the future.

They feel that the Colorado Tourism Office (CTO) is underutilized. The CTO has a budget of 20 million of which 6.5 million goes to winter marketing. Vail Resorts believes that this should be the vehicle for marketing.

Vail believes that CSCUSA should be more like the National Ski Areas Association which is a powerful lobbying organization and is strong industry advocate in the legislative process. Since Vail Resorts provided 50% of CSCUSA's dues, they felt that if the partnership was not moving in the desired direction, then at some point you need to get out of a bad marriage.

Katz said preseason sales started off well but have fallen off. One-third of their business is from Colorado and two-thirds is the destination market. 25% of their revenues come from season pass sales which end on November 15^{th}. He believes that snowfall does not drive the destination market, that the economy is the main factor.

Vail Resorts feels that owning lodging is a critical part of their business. This allows them to be a leader in that part of the business. Instead of preaching how to run something or how to put vacation packages together, they can demonstrate how to do it. The lodging division is separate and they do not subsidize lodging with mountain operations or vice-versa. They are primarily a mountain resort company not a lodging company.

The last part of the meeting was a roundtable where the different towns described how they were dealing with the uncertain economic environment.

<u>Telluride:</u> The Real Estate Transfer Tax (RETT) is forecast to be down 25-30%. Last year, they started their own sales tax collections and sales tax had increased considerably. They are forecasting sales tax to be down 5%. They are reducing expenses by 8% and undertaking no capital projects unless the bond issue passes.

<u>Mountain Village:</u> Many of their funds are self-sufficient. They expect their staffing levels to be down 10% from 2007. Their 2009 expenses will be at the same level as 2007. There will be no salary freeze; they are continuing with their compensation plan.

<u>Breckenridge:</u> They are forecasting revenue to be down 4%. They are going ahead with a 1.2 million dollar replacement of the recreation center roof. They will be down one staff member due to attrition. The RETT will be down 32%.

<u>Snowmass:</u> Two months ago they were forecasting revenues to be up 3%. The next budget meeting it was flat. Now they are asking staff for contingency plans for up to down 10%. They are becoming less reliant on sales tax than in the past. There will be no capital projects. They want to have the least possible impact on staff because they will need them when the economy recovers.

<u>Winter Park:</u> They are forecasting revenues to be down 15%. They will continue to finish capital projects underway and projects that have grant funds. To maintain employee moral, there will be no staff cuts and salary increases will continue.

<u>Silverthorne:</u> Their revenues are tied closely to traffic through the tunnel. They are expecting 2008 revenues to be down by 2.5% which is the same amount tunnel traffic is off. They are forecasting 2009 to be down 1% or 3.5% from 2007. Salary increases will be in the 0-4% range and they have seen health insurance jump by 16%. The plan no new staff for 2009 or 2010. They will have contingency plans for revenues being down 3, 5 and 10%.

<u>Frisco:</u> 2008 looks like it will be up 2.8% while 2009 is forecasted at flat. They are not really a ski based economy. Walmart, the grocery store and the liquor store are the main sales tax sources. They will maintain staffing levels with both merit and cost-of-living

salary increases. They have a balance budget but can use reserves if revenue is below projections. They have deferred capital projects.

Estes Park: The are budgeting for flat revenue. Lodging and restaurants are flat while retail is down. They have no debt and will be using reserves for capital projects. They are adding one staff position, a Public Information Officer.

Steamboat Springs: They are forecasting down 4%. They have a balanced budget and want to build reserves. They will revisit the budget after the ski season in March. They plan to lose 14 FTEs through attrition and there will be no salary increases. Capital projects will be reduced by 75%.

Park City: They are on a fiscal year so their projections were made in April and May. They have budget policies in place that implement a plan if revenues are down by 10%.

Stifel Nicolaus: Steve Jeffers said that variable Municipal rates have gyrated from 2 to 9%. To issue bonds now, you need a rating of AA or AAA. You used to be able to buy an upgrade with insurance but there is now only one firm offering that and it is very difficult to obtain. There is a pool of bonds ready to be issued when the conditions improve.

Stu Fraser, Telluride Mayor, described the challenge to reduce plastic bag usage held by Aspen, Mountain Village and Telluride. They reduced the number of plastic bags used by 140,359. If all of CAST participated, he estimated the number of bags not used would be 7 million. Their markets donated 5 cents for every bag not used and it generated $2,807.20 for renewable energy projects. He hopes other CAST communities will join in.

Paul Strong gave an update on the CAST sponsorship of the Governor's Tourism Conference. He felt attending and have a table to talk with conference attendees was very valuable but the sponsorship was probably not worth it.

Strong listed the upcoming meetings: January 09 – Mountain Village, March 09 – Denver, June 09 – Vail (CML), August 09 – Park City, October 09 – TBA, January 10 – Mt. Crested Butte.

The Board will be having a half-day retreat on November 20th.

The minutes of the August Estes Park meeting were approved unanimously.

The meeting was adjourned at noon.