

**3-19-20**

## **Lodge Sizing Task Force Decision Criteria Consolidation**

Here's how I (Jim B) presented the brainstorming exercise to the Task Force:

As discussed in Monday's meeting, I'd like to gather a list of sizing decision criteria for the Board members to consider. The developed list will be open ended, and not weighted, but I will recommend the Board weight their criteria. I've listed below my initial thoughts on where I'm at. Not ready to weight yet, but will as we review the Ward Young results. Please reply with your criteria by the end of the week. I'll consolidate and share. Thanks for your thoughts.

- Size lodge based on good snow years
- Spend: I'd cap at \$14M (all costs included)
- # of days exceeding CCC: 18 days per season
- Key learnings from Ward Young analysis. Gotta be some ah-ha's out of this. More to come.
- Other than exceeding carrying capacity, like to have a member experience factor. Stumped for now. More to come.

Each Task Force members input is provided below, separated by a line

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I think we should base CCC on 2018/2019 and 2019/2020 visit info since they represent good snow years (at least at TD) and reflect TD's use of peak period pricing. CCC should be established such that we do not exceed it by more than 20% on more than 5 days per season.

I think establishing a "spend cap" is counter productive. Our goal should be to identify the cost to do it right. That doesn't mean that cost is no object but we need to better understand TD needs and the trade offs involved in sizing to a spend cap.

We should wait for the Ward Young info so we can evaluate space needs for each of the activity areas in the lodge. Items such as preparation of plans/specs, permitting, demolition, construction management, grading, utility upgrades, access roads, the elevator/stairs and revenue loss during construction comprise a substantial portion of the project cost but are not effected by building size. Additionally, the size of interior areas such as ski patrol, employee locker/breakroom, admin offices and retail is determined by operational needs and not the number of skiers. The areas that should be sized based on CCC are the public areas such as the dining area, rental shop, guest services and public lockers. Sizing of these areas should be carefully considered since they have the biggest impact on member experience.

The number of seats in the dining area may drive the building size. I recommend seating be increased from the current 148 seats to about 250 seats. The deck or patio should also provide seating for 250.

New lodge building should be sited and configured to facilitate future expansion if necessary.

Member experience is pretty subjective. Surveys are one way to measure it. Another way might be to measure wait times to buy a ticket, rent equipment, buy lunch, use a rest room or ride a chairlift.

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- I am comfortable with an expenditure target, recognizing that all long term projects are subject to changes that we cannot control. This is normal for private enterprises of all types that do not have the ability to borrow on a long term basis or print their own money.
- In the sizing analysis, it is important that best operating practices be taken into account. Examples include sales/ticketing technologies that reduce the need for on-site staff and sales desks; demand separation strategies (e.g. a discount for “early bird” or perhaps afternoon-before renters to reduce the morning jam; flexible food prep (kiosks, carts) and outdoor space heating to expand the range of deck use).
- Some other factors are more relevant for the board or perhaps GPC:
  - Balancing other association needs (not just projects) and achieving an equitable use of owner’s capital. How should we think about the difference between the cost of this project compared to other needs that have lower costs but serve more owners and guests? How are the benefits of the project distributed among owners and between owners/guests and the public? Examples: skiing owners benefit from use more than non-skiers; nearby homes and condos probably have a bump in real estate value; STR owners may have more renter-nights in ski season.
  - To the extent that the decision includes assumptions that the ski hill will return a net operating profit from public sales, the risk based discount factor applied to those future utilization and sales projections will be very important. Snowmaking reduces this risk but over the long life of the project it does not eliminate it. Any increase the public sales in non-holiday periods would have positive financial effect without risk of overcrowding.
  - I think CCC takes this into account, but customer consumer expectations are relevant – during the season, no ski hill that is open to the public is uncrowded. Fortunately, if necessary to preserve TD owner/guest enjoyment, the Association has the ability to control public access as we have done with differential pricing.

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As a Finance Committee member, I have had a simple three part filter that I employ any time we review a plan to invest the owners’ money: we should consider the impact to (i) the owners’ (and their guests) experience/enjoyment, (ii) the rate of growth of the annual assessment, and (iii) the owners’ real estate values. Since we can’t maximize an equation or function for more than one variable, then by definition we are optimizing as best we can. Having a common, agreed set of facts helps us to soberly evaluate the data. Only then should we apply any optimizing effort around cost, member enjoyment, etc. In that spirit, I offer the following decision criteria.

(1) We should wait for the physical space/programming feedback from Ward Young. It will inform how large a facility we need based on our particular skier/visitor profile, one that is materially different from Squaw, Alpine Meadows, Sugar Bowl, etc. We should be very careful how we apply “industry standards” because our ski hill and visitor profile is not standard.

(2) We should not now set a maximum investment limit; it would be arbitrary at best and not be fact-based. Note that I’m deliberately using the term “investing” as opposed to “spending” as we are contemplating constructing a 30+ year life asset. We should integrate the programming space requirement information from Ward Young with accurate cost estimates from reliable sources to

determine the magnitude of the likely investment. At that point we can responsibly tell the owners that this is what it will cost to do the job right, to do the job well. Any effort thereafter to “value engineer” the project to get to a smaller dollar investment - one that might be more politically attractive to the Board and the owners - should be done only in the context of knowing what TDA will be giving up from the expert-identified ideal state.

(3) We should consider the life cycle costs of construction and running the place and properly evaluate any size-related economies of scale. To put this in perspective, the long term impact to owners of an incremental \$2MM initial investment (circa 2800 sf. at \$700/sf) over 30 years is \$10 per year. This is an investment in a long term asset and we should evaluate the project’s pros/cons over the long term, too, not just the upfront impact.

(4) I’m ok with exceeding the comfortable carrying capacity limit of the DHS Lodge by 15 days or so. Basically that covers the period of Christmas/New Years (6 days), MLK Weekend (2 days), President’s Weekend (2 days), and combined ski week/spring break (5 days). We can only use dynamic pricing so far before we become price uncompetitive or begin to interfere with members' enjoyment and that of their guests. That said, we probably need to allow for a slightly larger facility rather than try to manage the impact of overcrowded days through pricing or access limitations.

(5) We should systematically integrate the design features of this new structure with the rest of the TDA infrastructure to fill in any gaps and or provide capability redundancy. For example, is this an opportunity to have an event space (with a proper commercial kitchen) that might replace the much maligned event tent? Might the new DHS Lodge be a better second, lower cost dining option for members and guests than ACAC? Could we expand our summer camp offering for members and guests in an improved facility? Is this an opportunity to develop a shelter or meeting place in the event of an emergency? While the answer to these questions might be “no”, my sense is that thoughtful home owners would be disappointed if we did not ask these and potentially other questions.

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1. Utilize the past two seasons to determine CCC; as I think they are representative of good business years going forward because the Hill had snowmaking, variable pricing was utilized, and natural snowfall was good both years. Based on the past two years I believe using a CCC of 1,000 is appropriate. As others have said we can better accommodate the days exceeding CCC with some low cost extras such as: a larger outdoor deck, extend roof overhangs on deck side with built in heaters, hook ups on the deck for food carts, such as Euro Snack.

2. I would not cap project at \$14 million; let's wait and see what the lodge programming exercise reveals. However, prior to finalizing the Day Lodge programming, we will need a working session with Larry Young and the involved TD staff to discuss their methodology and the specifics of their recommendations. As you know I am very critical of Ecosign's 25,000 sq ft recommendation and feel

that their assumptions were flawed. While I realize TD is not a for-profit, ROI focused business I absolutely believe we have a responsibility to our property owners to be fiscally responsible.

3. I am also against adding any additional space in the design to accommodate events or groups. I have not seen any marketing data that would financially justify adding additional square footage for such events. That said, I think the design of the building should consider off-season potential uses, even though I think such use would be limited and incremental revenues would be modest.

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Right size the first time to avoid costly and potentially awkward expansions later. Artificial spending caps are counterproductive. Prioritize our critical operational and member enjoyment areas (seating area/bar, kitchen, rental space).

Based on our data and experience we know our users are more than just skiers. Our users also include family members and friends who don't ski but come to watch, parents tending younger children who don't ski yet, adults working inside while their kids take lessons, summer camps and summer activities yet defined, and people who attend meetings and events and use that space during our peak winter and summer months (remember this is a multi-seasonal facility). So, our CCC should be set higher to reflect the non-skiers and include meeting and event space needed from our facilities.

Added later: Not exceed it (CCC) by more than 20% on more than 5 days per season ( $1000 + 20\% = 1200$  skier visits). Our data from the last 2 years reflects skier visits from ticket/pass sales. My addition is the family factor of those non-skiers who use the Lodge. That number is at least a 100 on busy days, equaling a ccc of 1300.

Also, if we are truly focused on member experience, then I am not comfortable recommending a multi-million dollar project knowing that members will experience overcrowding on the very days they are actually here: peak holidays and weekends. Peak pricing isn't the entire answer here.

The lessons learned from Trout Creek and ACAC, circulated to the group yesterday, are critical to our criteria today. Don't play politics with planning, don't confuse what we want to be true with what is, know the liability risks, do it right, understand and define all the problems we're trying to solve, and do the necessary homework.

Yes, wait for Ward Young, but they are taking guidance from us. The more we can define for them, the better.

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**Introduction** When deciding on the best size Ski Hill lodge for Tahoe Donner, my criteria would be based on the two factors that Member surveys always mention as most important to them, i.e.: 1. Member enjoyment - Enjoyment of TD amenities is one of the primary reasons that members cite as the reason they chose to buy in Tahoe Donner 2. Financial prudence - As discussed in the Association Master Plan, Tahoe Donner has the lowest member assessment of any area HOA that offers recreational amenities that are owned by the Members.

**Member enjoyment:**

- According to the report from ECOsign and from actual measurements of safety and service, the ski hill, the lifts and the parking lots can accommodate well over 1,300 users per day. Note that additional parking can be easily provided by using our shuttle busses to bring users from overflow lots if needed.
- The historical reports of usage indicate that the actual user base (including public users) at the busiest times is between 900 and 1,000 users per day for the majority of the available ski days.
- The number of homes currently constructed in Tahoe Donner is approximately 90% of the total of available lots. At the current rate of construction, the number of Tahoe Donner homes will increase by about 10% over the next 10 to 20 years. Since the new lodge will have a useful life that exceeds this timeframe, any new lodge should be sized to accommodate 10% more members than the number of users today.
- The percent of users that are members and their guests is about two-thirds of the total, therefore: - A lodge for members and guests only must accommodate at least two-thirds of 990 users or 660 users for the majority of the available ski days. - A lodge that includes public use must accommodate 1100 users for the majority of available ski days - The availability of snowmaking for both ski lifts will make the ski days in the most important part of the ski season (the holiday periods) available for users for the lifetime of the lodge.

**Financial Prudence:**

- The Board has the authority to allow public users so long as this use does not reduce the enjoyment of members. The studies referenced above indicate that the current use (plus 10%) does not affect member enjoyment.
- The cost of operating the ski area (including OPEX, OH, maintenance and repair) varies with the number of users, however, this variance is less than the increase in revenue derived from additional users. There is a cross-over point above which the number of users generates a profit for Tahoe Donner that reduces the Annual Member Assessment.
- Some areas of a new lodge are independent of the number of users (design, site prep, elevator, stairwells, bathrooms, kitchen, ski patrol, etc).
- The size of some areas depends on the number of users (dining area, etc)
- The cost of the new lodge is depreciated over its useful life.

**Conclusion**

- Adding all this together, the maximum enjoyment and financial benefit to Tahoe Donner's owners is achieved when the lodge is sized to accommodate 1100 users. The actual size should be based on a collaboration of our staff and Ward-Young including any and all best practices and technology enhancements.

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**Staff provided the following consolidated input**

Management believes that much of our necessary criteria will be fulfilled with the Ward Young analysis. From that analysis we anticipate gaining a better understanding of:

- Specific Tahoe Donner needs analysis above and beyond industry standard. Ward Young will be reviewing and evaluating the existing needs analysis information and developing sizing needs associated with it. This analysis will be based on our current operating model including existing SF utilized (including crawl spaces and Yurt) plus impact of new code requirements for stairs/elevators/hall widths.
- The actual building layout and how it fits with our lot and building parameters. Ward Young will be taking the required spaces shown in the needs analysis and develop a

building program that will include descriptive narratives addressing the needs of each space and necessary relationships to other spaces. The Building Program will include an analysis of space necessary to meet Building Code requirements (e.g. minimum number of plumbing fixtures). The conceptual building plans will be diagrammatic, will indicate individual programmed spaces, and include two-story and three-story options. The conceptual plans will include diagrammatic 3D building massing studies.

- What our different options mean and the pros and cons of each. Ward young will be analyzing 3 options; replace in kind 15,000 sqft building, building based on 1000 ccc and needs analysis, and a larger 25,000 sqft facility as developed by Ecosign if needed. We will be getting a detailed alternatives analysis of the 3 options discussed above including the pros and cons of each.
- This study will allow the team to have an educated discussion of what the different options mean to the association and the impacts of each.

Beyond the Ward Young analysis management also believes the following criteria is important:

- Vision - Need to be thinking 30-40 years out. Climate change is real, but we have a high elevation advantage and built properly with multi-use/multi-function in mind, the building will be utilized. In a worst case, no DHSki, the people will still be here, and we would use the building for mtn biking, ropes course, brew pub, and yoga mecca and whatever else members wish to do because skiing is dead.
- Operating - Need to design for continued upgrades to our overall operation. The yurt is built in our prime beginner terrain real-estate. We Have 3 replacement reserve projects to update our conveyors between 2022 and 2029. We are starting to plan for those projects and are already aware that to update them properly using modern technology and improving upon our operation the yurt is in the way.

How often is the board and management comfortable exceeding the maximum occupancy limits that will be set by the building officials from a risk management perspective? We currently exceed this often and need to discuss what the policy is going to look like for our new facility.

Whatever gets built we need to design the facility to accommodate our current operating plan unless the board directs us to change it. New building must accommodate our current rental, lesson, and F&B needs.

- Finance – Budget caps do not historically work well for us. TDA has historically under-built buildings and we simply pay the price down the road. At trout Creek we have done 3 major remodels, the original design for that building before it was valued engineered is around the size that the building is today. The lodge has undergone 2 major additions since it was built in 2005, one to add the deck and another to enclose the first added deck add another deck. At ACAC we added a storage/garbage enclosure shed for approximately \$100,000 less than two years after the building was completed. This project took up valuable parking spaces and has interrupted

our ADA paths that still need to be addressed. In addition to the shed we are utilizing two storage containers behind the new facility due to lack of storage in the building.

Member benefit should be 1st priority for sizing consideration as well as the current excess capacity sold to Public with our existing building. The NPV of \$300(~last time we looked at it) per year Public per member benefit of DHSKi for 40yrs equates to a Present Value of \$45 million. For the sake of argument, we could use \$200, equates to \$30 million. This value to members (lower Assessment) should not be ignored.

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**Common Themes – Jim’s take / could be others I missed. Prefer you read the entire doc.**

- Base our lodge sizing on good snow years (past 2 seasons mentioned a couple of times).
- The Ward Young analysis is a critical piece of deciding size – don’t get ahead of seeing the results.
- Be aware TD’s business model / skier profile (ie including family members) is unique and should be accounted for when sizing the lodge.
- Comfortable Carrying Capacity should be exceeded by some number of days per season.
- Best operating practices / technology tools must be accounted for and used to optimize results
- TF members are either on board having a spending cap, or disagree with the concept. Regardless, wait until the sizing analysis & facts are in before considering the associated cost.
- Balancing all Association financial needs is important when considering overall cost of a new lodge.
- Controlling public access can be a key to enhancing member enjoyment while maintaining some level of revenue.
- Account for member enjoyment / experience. There are some solid detailed thoughts within the document.
- Consider this a 30-40 year investment. Do not under build.