

BEST USE / RE-USE STUDY

KEWEENAW MOUNTAIN LODGE

COPPER HARBOR, MICHIGAN



April 2016

Acknowledgements

This analysis was prepared for



Keweenaw County, Michigan

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Introduction

At its best, the Keweenaw Mountain Lodge evokes the rustic charm and historic aura of the great national park lodges, many of which were constructed in the same style and era. The lodge is unique within its market, and one of only a small number of lodging properties in the area that can be a destination in itself. With the proper investment, management, and marketing, it can be a profitable business producing income for the County, and contribute to the struggling economy of the Keweenaw Peninsula.

The Lodge's problems stem from years of poor management and an ill-considered and poorly executed expansion in the mid 2000's. That expansion is the source of the Lodge's debt. It was meant to allow the facilities to be operated year-round and to add the ability to host meetings and banquets in a new conference center attached to the main lodge. Functionally as well as financially, the attempt to winterize the buildings failed. The conference center is booked on weekends for weddings throughout the limited summer season, but has not attracted many other events and has not produced anywhere near the revenue necessary to justify its cost of construction.

Several approaches might be considered to address the County's debt related to the Lodge, which includes three Revenue Bonds with a total principal amount of \$1,790,000. All of these alternatives result in a continued inability to pay the outstanding debt, which is also currently in default. If the County continues to own the Lodge, it will need to work with the USDA to restructure its debt. The options considered included:

1. Keweenaw County could continue to own and operate the Keweenaw Mountain Lodge as it has done for over 80 years.
2. Keweenaw County could continue to own the Lodge, but allow it to be managed by a professional hospitality firm, as originally recommended in the 2005 Feasibility Study.
3. Keweenaw County could sell the Lodge to a qualified buyer, for its continued use as a lodge, restaurant, and golf course, and stipulating minimum performance standards for investment and operation of the facilities.
4. Keweenaw County could sell the lodge with no requirements in addition to restrictions already attached to the property, some of which might be vacated.
5. Keweenaw County could turn the property over to its creditors.
6. Keweenaw County could continue to own the Lodge under scenario 1 or 2, and supplement its income with a tax levy earmarked for debt repayment.

The County is contractually obligated to repay the revenue bonds in full. It is highly unlikely that the debt attached to the property by the US Department of Agriculture - Rural Development (USDA) will be forgiven. It is common, however, for the USDA to agree to restructure payments to more accurately reflect the revenue stream of the property. Additionally, there are requirements of the revenue bonds, and the Economic Development Administration (EDA) and Community Development Block Grants (CDBG), which would need to be met. These could include repayment of some or all of the grant funds if the property were transferred to a private entity and/or used for a purpose inconsistent with those permitted under the grant programs.

The Keweenaw Mountain Lodge was recently appraised at a value of \$1.5 million. Its sale would leave an outstanding debt of about \$290,000 in principal, plus accrued interest. The amount is over \$300,000 and could be significantly higher if the EDA or Michigan Economic Development Corporation (MEDC) were to require repayment of all or a portion of their grants. Given the property location, its condition, and its history of not being profitable, there could be few buyers and the actual sale price is very likely to be less than \$1.5 million.

Upon consideration of all options, Place Dynamics is recommending that Keweenaw County continue to own the Lodge, commit to necessary improvements, and additionally commit to a critical recommendation in the 2005 Feasibility Study – that the County contract with a professional management firm to manage the day-to-day operations of the lodge. Furthermore, the County should develop a business plan and facility rehabilitation plan that dedicates a portion of annual revenue to funding necessary improvements that will let the Lodge compete for a greater share of the lodging and dining market. Additionally, the County should consider a tax levy to supplement Lodge revenue, and approach its creditors about restructuring the debt to reflect the revenue available for repayment.

Property Overview

The Keweenaw Mountain Lodge is an historic lodge, conference center, restaurant, and golf course located near the northern tip of Michigan's Keweenaw Peninsula. The lodge is owned by, and has been managed by Keweenaw County since its establishment. The facilities were constructed beginning in 1934 as a project of the Civil Works Administration and later Works Progress Administration (WPA) to create jobs for unemployed workers during the Great Depression. The original main lodge building and cabins are built from rough-cut stone and logs harvested on the property. The Lodge is listed on the National Register of Historic Places. (See photos in Appendix D.)

Buildings and Grounds

The property is situated on approximately 167 acres of land fronting on US Highway 41, about a mile south of Copper Harbor. The area surrounding the site is heavily wooded. The property has a charming appearance from the highway, with mature trees and a low stone wall lining the road, a rustic sign and gateway, and expansive views over the golf course toward the main lodge and cabins. A narrow drive winds its way past the cabins to the buildings and parking area, which is situated at the top of a small hill. The view from the front of the lodge takes in Brockway Mountain to the west.

A nine-hole golf course is the most dominant feature on the grounds. It is an attractive setting with mature pines and hardwood trees lining the fairways. Other features of the property include a disc golf course, tennis court, and trails. The tennis court surface is in need of repair. The trail system is a major asset to the property, as it connects to Copper Harbor and to trails running throughout the area. These trails may be used for hiking, mountain biking, cross-country skiing, or snowshoeing.

Except for the area around the main lodge, there is little landscaping other than the native vegetation, trees, and grass. This is appropriate for the type of property and the overall appearance of the grounds is very attractive. An herb garden in front of the lodge provides fresh herbs for the restaurant kitchen.

Main Lodge Building

The main lodge building was the first of the structures to be completed in 1934. It has two levels, with the primary activities located on the upper level and support and ancillary functions located on a lower level. The main floor has three large public spaces; a bar in the center and dining rooms to either side. These rooms are two stories in height, with exposed log trusses, upper and lower level windows or doors that let in natural light, and massive stone fireplaces in both dining rooms. The original light fixtures still hang from the ceiling. Historic images and taxidermy adorn the walls and contribute to the character of the space. The original bar looks to have been replaced at some time in the past, however, and the new bar does not match the quality or character of the original structure. The carpet also has a dated look.

An open porch once wrapped around the front and sides of the building on the main level. This was enclosed as part of a renovation project. The enclosed space is now used for restaurant seating.

The hotel registration desk is located in a small room situated to the side of the main entrance. There is a counter and desk at the front of the office. The layout forces registering guests to stand in the entry hallway, and also exposes the office and its clutter to anyone entering the building. The office was remodeled in the past, and has none of the historic character of the bar and dining rooms. Additionally, a number of items are available for sale in the entrance hallway, contributing to confusion about how the

space is meant to be used. It does not function as an efficient or attractive hotel lobby or entry to the restaurant.

The lodge's lower level is used for storage and holds men's and women's locker rooms. The former women's lounge area on this level is unused. This is a long, narrow space that was considerably altered as part of the renovation to winterize the building. The log walls were covered with paneling and a dropped ceiling was installed. Otherwise, this space is brightly lit by rows of windows on the long wall, and could be productively used in support of lodge activities, perhaps as a breakfast room.

In 2007 an approximately 6,000 square foot banquet hall and meeting facility was added to the main lodge. This is a single story addition at the rear of the building. The exterior was designed to mimic the log structure of the historic lodge, though the interior has a more modern look. The addition includes a pre-function area, handicapped-accessible restrooms, and the banquet hall. The banquet hall can seat up to 280 guests and can be partitioned into smaller rooms for meetings. Typical banquet table set-up services and audio-visual resources are available.

The three main rooms of the original structure were winterized at the time the conference center/banquet hall was added. The enclosed porch was not winterized. This has contributed to difficulty in keeping the restaurant open in the winter months.

Hotel and Cabins

Guest accommodations include 24 cabins with a total of 34 guest rooms, and eight motel rooms. Cabins have one, two, or three bedrooms and may have one or two units per building. The eight-room hotel is situated near the main parking lot and the lodge. The cabins are arranged along the entry drive on the slope of a hill. They are spaced a comfortable distance apart and surrounded by mature trees. Although most of the buildings are in generally good condition, some repairs are needed, particularly to decaying logs, porches that are separating from the building, and the roofs of some cabins.

As originally constructed, the cabins have interior log walls, wood floors, and stone-faced wood-burning fireplaces. These features are essential to creating the historic charm that visitors find appealing. These features were also eliminated in the attempt to winterize several of the cabins. The log walls were covered with paneling and some fireplaces were retrofitted with gas burners. Guests frequently comment about the historic charm of the rustic cabins, and are more willing to overlook a lack of modern amenities in exchange for this character. Guests staying in the converted rooms usually describe them as dated and unattractive.

In any lodging establishment, it is vitally important that the hotel rooms be designed to reinforce the property's brand, to ensure safety, and to meet guest expectations for amenities. The cabins are not completely successful in meeting any of these requirements.

- Unaltered cabins are somewhat more successful in reinforcing the Lodge's historic, rustic brand. Even here, room furnishings and bedding do not match the style of the structure. This includes most furniture, drapery rods, metal clothing rods, and fixtures.
- Aside from the rooms that were winterized, many other recent alterations were done without much thought to the property brand, or even a cohesive design. Examples include bathroom renovations and the hot tub in the "honeymoon suite".

- Many guests expect to find kitchen facilities in the cabins, which do not even provide a refrigerator, microwave, or in some cases a coffee maker.
- Few amenities are provided. The rooms have old CRT televisions instead of modern panel TVs that would allow guests to connect their electronic devices.
- The number of electrical outlets is too few by modern standards. This can be addressed by replacing old light fixtures with new ones that incorporate outlets and USB charging stations.
- Wi-fi is not available in the cabins. It is available in the lodge, but reviews have commented that it is unreliable or slow.
- Cellular service is reported in many online reviews as not available. During the site visit it was possible to receive a strong signal using Verizon while in the parking lot. As the cabins are at a lower elevation they may not receive the same coverage.
- Several rooms do not have phones. With poor or no cellular coverage, and given that there is no 24-hour office attendant, it is an essential safety concern that a working phone be placed in every unit.
- Key-operated door locks are old and inadequate. They should be replaced by electronic locks. Locks that can be coded anew for each guest can also provide greater safety for guests that will be arriving after the hotel staff have left for the evening. Locks are now available that can be opened using a code sent to the guest's smart phone.

The hotel building appears to be in good condition. Its eight rooms are surprisingly large, and might offer opportunities to better meet market demand. None of the interior walls are structural, so the rooms could easily be reconfigured to create king bed suites with a more modern bathroom, layout, and amenities.

The rooms' large size, tall ceilings, and ceiling fans are all positive aspects of the space. The thin walls, peeling wallpaper, stained carpets, and dingy and old furniture are considerable negatives. As with the cabins, the sink area and bathrooms were renovated at some time in the past. In particular, the cheap, mismatched, and yet highly visible sink detracts from the appearance of the space. Its placement also creates a conflict with the open bathroom door. Many of the observations about the cabins hold true for the motel rooms, such as the lack of expected amenities, too few outlets, old televisions, lack of phones, and door locks.

Additional Buildings

A small building near the lodge has been used in the past as the pro shop. It is also a log structure similar in character to the cabins. Its size would accommodate a small retail store. The building is in generally good condition. Several storage and maintenance buildings are also located on the property, and were not reviewed in this analysis.

Property Appraisal

The property was appraised prior to the completion of this report. That appraisal valued the Lodge at \$1.5 million, although it hinted that lower offers might be considered if the property was to be sold. The appraisal used comparable sales from the vicinity of the Wisconsin Dells, near a highly-traveled interstate

and in one of the top visitor destinations in the upper Great Lakes region. There would likely be fewer potential buyers for a seasonal lodge located in the Keweenaw Peninsula, which is in need of considerable renovation and which has not been profitable for several years. These challenges can make the prospect of a sale daunting, and may not produce favorable purchase offers.

Operating Practices and Conditions

The Keweenaw Mountain Lodge was closed for the season at the time of the consultant walk-through. The observations presented here were drawn from interviews with staff and former guests, online reviews, the lodge's web site, and other second-hand sources.

Seasonality

Since its establishment, the Keweenaw Mountain Lodge has been open seasonally in all but one year. During the 2007-2008 winter season the restaurant, hotel rooms, and some cabins were open through the winter months. It is based on this single experience that the attempt to winterize the property has been viewed as a failure, as the costs of electricity and propane used to heat the buildings greatly exceeded the revenue earned during this period, and there were numerous mechanical problems with the cabin heating systems.

The lodge and restaurant is generally open from mid-May through late October or the first week of November. August and September are the busiest months.

The attempt to winterize the main lodge, hotel rooms, and several cabins in 2007 has been largely regarded as a technical and financial failure. County officials have reported that the renovations made to insulate the cabins and provide heating were not planned and executed properly. There was a very high incidence of mechanical failures, and the cabins could not consistently be maintained at a warm temperature. Additionally, the cost of propane used to heat the cabins was far greater than the revenue generated from their occupancy during the winter months. After only one season, a decision was made to remain open only in the warmer months, and close the hotel and lodge during the winter season.

It should also be recognized that the winterization effort damaged to the property's historic character, which is its "brand". Covering the interior log walls transformed affected cabin rooms from an historic, rustic appearance, to one that is usually described as cheap and dated.

Policies and Procedures

As the property was closed during the walk-through, it was not possible to observe hotel and restaurant operations. The following comments are based on the information that was available, along with discussions with Lodge staff.

Record-keeping is an item of great concern. Most guest records are still kept on a paper-based filing system. Spreadsheets used to help track room bookings are erased at the end of the season, so there is no historical record to help understand utilization. As a result, the Lodge is not able to compile and analyze information that would help it to operate more efficiently and effectively. A computerized hotel management system would enable the hotel to use dynamic pricing to increase occupancy and revenue per available room, and would easily integrate with online booking services like TripAdvisor or Travelocity.

An automated system would also track guest characteristics and room usage. Analyzing guest parties could help to determine the most desirable mix of room and bed types. Home addresses could be mapped to identify where visitors live, and help to develop more directed marketing campaigns. These

benefits are in addition to the efficiencies inherent in automation and integration of data across platforms.

Guests to the Lodge check in at the main lodge building, at a counter in the entry hallway. The desk may not be routinely staffed and in the evenings the bar staff will check in guests. Keys are left for guests arriving after the bar is closed. This is not an ideal procedure, causing confusion and safety concerns for the guest.

The Lodge accepts pets for an additional fee. The Keweenaw Peninsula is both a good and a bad place for traveling with a pet. Dogs can accompany guests on mine tours and scenic cruises. At the same time, they are prohibited from using trails on many conservancy lands. One in seven trips taken by car – which comprise nearly all trips to the Keweenaw Peninsula – include a dog. The fact that dogs are accepted at the Lodge can be an important selling point that should be exploited. The Lodge could consider providing kennels to visitors at an hourly rate as an additional income source.

The Lodge is a non-smoking hotel, as are all hotels in Michigan. This is typical of most chain and better quality hotels. Again, the no smoking policy should be stated on the website and elsewhere. The no smoking policy should also be in force outside of all building entrances.

The Keweenaw Mountain Lodge, like all other independent hotels in the area, does not participate in STR Global's hotel survey. STR Global compiles data on hotels worldwide, primarily through hotels that voluntarily provide aggregated room occupancy, average daily rate, and revenue per available room data to the company. In return for their participation, hotels receive daily, weekly, and monthly benchmark data for their market (at no cost), which can be used to determine market share and adjust pricing, amenities, or services to be more competitive.

The Keweenaw Mountain Lodge does not use a dynamic pricing model or even adjust pricing by day of week. A single price is set based on the type of room. Rates now in effect (March 2016) are:

- Motel room: \$125.00 per night + tax
- 1-bedroom log cabin: \$135.00 per night + tax
- 1-bedroom premium cabin with whirlpool: \$165.00 per night + tax
- 2-bedroom log cabin: \$165.00 per night + tax
- 3-bedroom log cabin: \$199.00 per night + tax

Room discounts are offered to parties booking the conference center. These are mostly weddings with overnight guests on Fridays and Saturdays. During the summer months, market occupancy on those nights is very high, reaching 95 percent or greater in July and August. In effect, wedding guests are booking discounted rooms on these busiest nights, when the hotel might otherwise fill its rooms at the full listed rate.

Conference Center / Banquet Space

While the 2005 feasibility study prepared for the Lodge, ahead of its 2006 expansion, considered the hotel and restaurant, there does not appear to have been any market study completed for the conference and banquet space. Place Dynamics has completed feasibility studies for similar spaces in small communities, as well as gathered data for comparable spaces. In our experience, we have yet to see one

that could be operated without a subsidy, even when the costs of construction were entirely financed through grants and private donations.

Not only has the Keweenaw Mountain Lodge needed to fund the space's capital and operating costs solely through facility revenue, but it also has two unique challenges not found in comparable spaces. Firstly, the facility is only open and able to produce revenue through six months of the year. Secondly, the unique geography of Michigan greatly impacts the ability to book the space. Statewide organizations are an important market for this type of facility, but most will not consider a remote location for their conferences and other events. The Keweenaw Peninsula is more easily accessible to Wisconsin and Minnesota, but organizations in those states will not book an out-of-state space for their activities. The area's sparse population and limited number of businesses do not create a great deal of local demand for the space.

The facility's bookings are overwhelmingly weddings scheduled for weekend days throughout the summer season, and there are only a handful of small events scheduled on weekdays. Nearly all of the limited marketing conducted on behalf of the facility is oriented to the wedding market. As already noted, this fills hotel rooms at a discounted rate during the busiest nights of the season, while doing little to fill them on weeknights when there is less demand. This is a deficiency that must be addressed. Given the difficulty in attracting statewide conventions, and the relatively small number of onsite rooms, the conference center should be marketed as an executive retreat center for business, educational, and organizational meetings, targeting Chicago, Milwaukee, Minneapolis, Detroit, and smaller cities within Michigan and states neighboring the Upper Peninsula.

Benchmark Analysis

Over the past three years the Keweenaw Mountain Lodge has consistently posted a loss, once both depreciation and debt service are included. It has more or less broken even before these expenses are factored in.

Unfortunately, the Lodge does not maintain separate accounting for each of its three business areas, which might permit actual performance to be benchmarked against industry averages. The aggregate numbers still do indicate two areas in which expenses are well above what would be expected for a property of this type, with the revenues that have been posted.

Wages, salaries, and benefits greatly exceed what would be expected. Labor costs equaled over half of all revenue from the Lodge, restaurant/bar, and golf course in 2013 and 2014. In 2015 the cost of labor was better controlled, but still accounted for 45 percent of all revenue. Labor costs

COST OF GOODS SOLD AS A PERCENT OF RESTAURANT/BAR/GOLF INCOME

	2013	2014	2015
Cost of goods sold	33.22%	34.57%	33.20%

EMPLOYEE COSTS AS A PERCENT OF TOTAL INCOME

	2013	2014	2015
Employee costs	51.35%	50.33%	45.37%

should more typically be about one-third of revenue. Bringing the cost of labor in line with the industry average would result in savings of about \$100,000 per year.

A careful investigation of staffing is needed, but housekeeping is one area that appears to be over-staffed. Hotels will often use an average of 30 minutes per room, or 14 rooms per housekeeper over an eight-hour shift. This results in a demand for three full-time equivalent (FTE) workers per day when the Lodge is fully occupied. At full occupancy, the weekly total housekeeping hours required would be 168, or 4.2 FTE workers. Since not all rooms are occupied, especially early or late in the season and on weekdays, the actual number of weekly hours required should be much less than 168.

The cost of goods sold in the restaurant is also higher than customary. This discrepancy requires more analysis, as it can be a function of many things including loss, items on the menu, and pricing. Loss can come through spoilage, misappropriation, waste in preparation, or waste attributable to service. As an example, buffet service tends to result in a greater amount of food being consumed per customer.

Marketing

The Lodge spends a majority of its marketing budget on advertising, and its ads are seen in most of the tourism magazines and brochures for the Keweenaw Peninsula. A smaller amount is spent on printed brochures specifically for the Lodge. During the site visit, it was observed that there were no brochures for the Lodge available at the visitor center in Calumet, or in other locations where tourism literature was displayed.

Only about ten percent of the marketing budget is allocated to the web page. There is a simple website for the Keweenaw Mountain Lodge (www.atthelodge.com) which tends to be oriented to the lodging component of the property. The Lodge also maintains a Facebook page, which could be utilized to a greater extent. The website is not optimized for mobile devices. Several additional concerns were noted.

- Hotel policies and other information important to guests are not clearly listed on the site. For example, there is no mention of the lack of kitchen facilities in rooms, the procedures for late check-in, that pets are permitted, or that there is a continental breakfast.

SUMMARY FINANCIAL DATA

Income	2013	2014	2015
Lodge	\$442,645	\$447,108	\$476,544
Restaurant/bar	\$404,483	\$457,972	\$386,054
Golf course	\$111,835	\$106,175	\$107,074
Interest income	\$1,025	\$540	\$305
Insurance proceeds	\$0	\$3,075	\$0
Allowances/discounts	-\$20,597	-\$16,216	-\$4,238
Total income	\$942,466	\$995,579	\$966,014
Total COGS	\$171,540	\$195,039	\$163,726
Gross profit	\$753,273	\$784,519	\$793,995
Employee costs	\$483,961	\$501,117	\$438,296
Supplies	\$38,793	\$42,593	\$38,274
Operating costs	\$212,987	\$220,653	\$233,089
Marketing	\$14,943	\$20,980	\$10,525
Depreciation	\$154,175	\$152,450	\$144,948
Total expenses	\$904,859	\$937,793	\$865,132
Net ordinary income	-\$151,587	-\$153,274	-\$71,137
Other income	\$1,756	\$3,369	\$4,696
Tips wash account	\$0	\$0	\$1,211
Capital expenditures	\$2,422	\$1,360	\$5,647
Debt service	\$73,848	\$73,873	\$73,873
Net other income	-\$74,514	-\$71,863	-\$76,035
Net income	-\$226,101	-\$225,137	-\$147,172

Date for 2015 may be preliminary

- There is an online reservation system through the website, but that has not been updated to 2016 dates yet (as of April 2016). The website does not list the dates that the hotel and restaurant will open and close for the season.
- Hotel information and restaurant menus are attached as PDF files. These will be hard to access or read on mobile devices. Additionally, search engines do not index the content of PDF files, which will result in fewer search “hits” on the website.
- The page discussing events is oriented almost entirely to weddings. No information is provided about the space and potential room and table configurations.

Using the search term “restaurants copper harbor”, the lodge does not show up until the second page of results. Using “hotels copper harbor”, the lodge is listed sixth on the first page of search results.

Aside from the website and Facebook page, not much effort has been made by the Keweenaw Mountain Lodge (or most other lodging and dining establishments in the area) to develop a deeper web presence. The Lodge’s Google Maps site has not been claimed. The meeting space is not listed on any sites such as meetings.com or uniquevenues.com, or even on wedding planning sites like weddinglocation.com. Restaurant and hotel sites such as Yelp, YP, TripAdvisor, All Menus and others have also not been claimed. Potential customers use these sites more frequently than a business’s web site in making their dining plans. The Lodge should be maintaining these sites to add critical information such as hours, menus, and specials, and to respond to reviews. The Lodge does not engage in any social media or other online advertising.

State and local tourism websites do include information about the Lodge, aside from hotel and restaurant listings. Other, often more important travel planning websites (and their mobile applications) have little information about the Lodge or other businesses in the area. Examples include general and special interest sites like Travelocity, TripAdvisor, Roadtripper, and DogFriendly. Like most of the hotels in Copper Harbor, the Keweenaw Mountain Lodge does not allow booking through travel websites like Trip Advisor or Travelocity. This certainly has an impact on occupancy, as travel websites are used more frequently than independent hotel websites to find hotels and book rooms.

Guest Reviews

Reviews of the restaurant and lodge are mixed. This is true across multiple sites and over a period of years, so that there is no trend in one or another direction. Sites that were scanned for reviews included Google, Trip Advisor, Yelp, Travelocity, YP, and Zomato. A lodge guest who was interviewed by the consultant summed up the Keweenaw Mountain Lodge as “a place with a lot of potential, but they just can’t seem to get it right”. This might be an apt summary for the 205 online reviews on six sites.

Some reviews list the location of the reviewer, which gives insight into locations from where the Lodge is drawing its customers. While many of the reviewers live in Michigan, Wisconsin, and Illinois, a still large number come from further distances. Missouri, California, Colorado, New York, Virginia, Kentucky, and Texas are some of the other states often listed.

Lodge Reviews

“The individual log cabins from the 30’s in a hilly, wooded setting looks quite inviting. We had a two bedroom cabin with plenty of room and a fireplace. While I wanted and expected a log cabin atmosphere we were

quite surprised by the condition and quality of furniture and beds. Lamps were old and falling apart, lighting was lacking and the TV should be in a museum. We had wood for a fire but it was wet and hard to burn. The light outside our window was so bright that we could not sleep well. This place could be great if they would take the time and money to make the great atmosphere comfortable and a little more up to date. Once was enough."

"It reminded me of the buildings and lodges at the South Rim of the Grand Canyon. The setting is beautiful and remote! The grounds are well maintained. We stayed in one of the cabins that came complete with modern amenities, yet captured the rustic ambiance from the day it was built. It even included a wood fireplace, complete with a closet full of ready to burn firewood."

- There are mostly positive reviews for the rustic character of some rooms, while complaints for rooms that had been renovated with paneling over the log walls.
- The wood-burning fireplaces are often mentioned as a great amenity, and guests appreciate that the wood box is filled each day.
- Furnishings receive a number of negative comments, for their age, condition, dated appearance, and being mismatched. The beds are frequently cited as old and uncomfortable.
- Housekeeping tends to be mentioned as a problem, with many comments about rooms having dirty floors, cobwebs on the walls, dust on window sills, and general lack of cleanliness.
- Maintenance is cited a few times, with window screens and porches most often mentioned.
- Several comments relate to the lack of wi-fi in the rooms and the lack of cellular service.
- Many people expect amenities such as a refrigerator and microwave, or even kitchen facilities, that are not provided.

Restaurant Reviews

"Great/Bad. The Keweenaw Mountain Lodge is a unique, interesting and beautiful facility. The food is very pedestrian and does not show much promise, I was expecting to see new life brought into the menu by new management. It continues to disappoint year after year."

"We were so glad we stayed at the lodge and got to take advantage of the restaurant at least one time each day of our stay! We were not disappointed at all! Also we attended a wedding reception at the lodge during our stay and the food at the wedding was very good!"

- As with the cabins, guests often leave positive comments concerning the atmosphere of the dining room.
- Complaints about the service, mostly related to being slow, outnumber positive comments.
- While some people considered the food to be excellent, the majority rated it average to poor. Guests from outside of the area were more likely to be critical of the quality and selection of food on the menu.
- There were many complaints about the flies.

2007-8 Expansion and Limitations Imposed by Funding Sources

The 2007-2008 winterization and expansion of the Lodge was funded by a combination of Federal grants and revenue bonds issued through USDA-Rural Development. These included:

- \$300,000 grant through the Community Development Block Grant (CDBG) program, to upgrade the water supply.
- \$10,000 grant through the USDA Community Facility Grant program to fund equipment purchases for the Lodge.
- \$1,754,000 grant through the EDA Community Facility Grant program to fund winterization and development of the conference center at the Lodge.
- \$1,273,000 loan in the form of a revenue bond, through the USDA-Rural Development, to fund winterization and development of the conference center at the Lodge.
- \$120,000 loan in the form of a revenue bond, through the USDA-Rural Development, to fund winterization and development of the conference center at the Lodge.
- \$400,000 loan in the form of a revenue bond, through the USDA-Rural Development, to fund winterization and development of the conference center at the Lodge.

The Keweenaw Economic Development Alliance (KEDA) has provided an opinion, dated November 25, 2014, that there will be no further requirements related to the CDBG grant once beyond five years from the time when the grant was closed out. This close-out occurred in 2012, which would result in the lifting of any restrictions in 2017. As a practical matter, this is the earliest time at which a sale of the property might be contemplated.

EDA grants are provided to public and certain other nonprofit entities for investments that are intended to remain public. A process for disposition of the assets is spelled out within the agreements the County approved. If the property and assets are no longer used for the intended purpose, they may be used for other public purposes consistent with the EDA grant program. If the County retains title but does not use the property for a purpose consistent with the grant program, or if it sells the property (following applicable sales procedures), the County may be required to reimburse the EDA a portion of the sales proceeds. The amount is determined by the percentage of grant funds that made up the initial project cost. In this case, the \$1,754,000 EDA grant made up 45.476 percent of the \$3,857,000 total project cost.

The three revenue bonds issued through USDA-Rural Development are backed by the “full faith and credit” of Keweenaw County, which is obligated to repay the loan. At this time the County has not made any payments, and owes both the principal balance and interest that has accrued. Keweenaw County is not the first government entity to default on revenue bonds held by USDA-Rural Development. In similar situation the USDA has often been willing to restructure the terms of payment to more accurately reflect the revenue realistically available, particularly when the debtor has been willing to commit other funds to help assure payment.

It is far less likely that the USDA will forgive all or a portion of the debt. Doing so might also complicate resolution of the EDA grants. The terms of the grant program require a minimum 50 percent match from non-Federal funds. If a portion of the USDA loans was forgiven, that could trigger a need to repay a

portion of the EDA grant to bring the grant contribution in line with program requirements. This is not a highly likely scenario, but is still one that should be contemplated.

The USDA agreements have another requirement that will impact how the County can manage the property. This relates to its use for a public benefit. If the County contracts with a private management firm it will need to secure permission from the USDA, and must limit the terms of an agreement to no more than five years. This requirement is in place because the private entity will be earning a portion of the project revenue that would otherwise be committed to repaying the bond. In reality, this revenue will not likely be in place without the professional expertise provided by a well-qualified management company, as has been the case over the past several years while the Lodge has been managed by the County.

Both the EDA and USDA-Rural Development require that the County obtain approval before it can take any action related to the disposition of the property or contracting with a management company.

The effect of these contractual requirements is to influence recommendations for future use of the Lodge toward its continued ownership by Keweenaw County. Even if no repayment was required for the EDA and CDBG grants, the County is likely to capture far less in a sale than it would be required to repay on its three USDA loans. In contrast, the USDA loans can most likely be restructured with lower payments, and the Lodge can be more effectively managed to produce the revenue necessary to cover the County's debt payments.

Recommendations

Place Dynamics evaluated the findings of the property assessment, market analysis (included in [Appendix A](#)), business operations and financial performance, and other factors in considering six alternative scenarios for the County's continued ownership or disposition of the Keweenaw Mountain Lodge:

1. Keweenaw County could continue to own and operate the Keweenaw Mountain Lodge as it has done for over 80 years.
2. Keweenaw County could continue to own the Lodge, but allow it to be managed by a professional hospitality firm, as originally recommended in the 2005 Feasibility Study.
3. Keweenaw County could sell the Lodge to a qualified buyer, for its continued use as a lodge, restaurant, and golf course, and stipulating minimum performance standards for investment and operation of the facilities.
4. Keweenaw County could sell the lodge with no requirements in addition to restrictions already attached to the property, some of which might be vacated.
5. Keweenaw County could turn the property over to its creditors.
6. Keweenaw County could continue to own the Lodge under scenario 1 or 2, and supplement its income with a tax levy earmarked for debt repayment.

Additional recommendations specific to the Lodge's facilities, operations, and marketing are discussed in [Appendix B](#).

Opportunities and Constraints

Several key points can be drawn from the property assessment, market analysis, and analysis of business operations and financial performance. Additionally, this section of the report considers the likely economic impacts of alternative uses for the Lodge, including its sale.

There is a strong and growing visitor market in the Keweenaw Peninsula

The Keweenaw Peninsula contains a large number of high-quality destinations offering visitors the opportunity to appreciate its rich history or participate in a great number of outdoor activities. It has three distinct seasons; a summer in which visitors can engage in many outdoor activities and tours, an Autumn in which visitors travel to see the turning colors, and a winter where heavy snowfall supports both motorized and non-motorized snow sports. Visitor traffic is growing, and Friday and Saturday night occupancy at comparable area hotels is approaching capacity during the peak season. Under these conditions the Lodge should be able to achieve higher levels of occupancy. It should also be able to attract business meetings and other small events by positioning the conference center as an executive retreat center. Booking these events will help to improve weekday occupancy.

The Keweenaw Mountain Lodge is a unique property within the market

Visitor comments about the beauty, rustic character, and historic significance of the Keweenaw Mountain Lodge ring true. Along with Mt. Bohemia, it is the only destination resort in the area, and has

one of only two full-service banquet/conference spaces in the market (aside from facilities on the Michigan Technical University campus). The Lodge competes for the same visitor who might otherwise seek higher-end accommodations such as at the Holiday Inn Express, Inn on Lac LaBelle, or some of the area bed and breakfast inns. Guests at the Lodge are seeking an unique experience similar to what they may expect staying at a rustic lodge in a national park. They are often disappointed by the quality of the rooms, and particularly with those that have been renovated and have lost their historic character. Restoring the cabins, upgrading furnishings, adding modern amenities, and ensuring excellent service can reinforce the Lodge's market positioning, build a favorable reputation, and fill rooms throughout the season.

The Lodge is an important economic engine for the area

The Keweenaw Mountain Lodge is a destination in itself, in that people come to attend events in its banquet/conference facility or enjoy the golf course, trail access, and other amenities. The Lodge has a greater impact on the area economy than other lodging and dining businesses. This goes beyond wages and purchases of goods and services in the local economy. The Lodge will also bring in many events that cannot be hosted elsewhere, and will attract guests to the upper tip of the peninsula who would otherwise stay at upper mid-tier hotels in Houghton or Hancock. Events at the Lodge create a demand for many other services that guests can purchase locally, from flowers and photography to gifts, tours, and meals. Loss of the Lodge would have an impact on many other small businesses in the area.

The restaurant is similarly unique within the market

The restaurant at the Keweenaw Mountain Lodge is considered to be among the best on the Keweenaw Peninsula, yet many guests will say that improvements are needed to the menu and quality of food, and service, for it to truly deserve to be called excellent. Still, the restaurant has a large following and people look forward to special events such as the Mother's Day opening, Sunday brunch, and evening specials. Expanding on these special events, refreshing the menu with exciting dishes catering to the tastes of visitors, sourcing fresh and locally-raised food, reintroducing breakfast service, and providing room service for Lodge guests may be some strategies to improve the restaurant's financial performance as well as the reviews it receives.

Management failures account for the Lodge's poor prior performance

The Lodge is not struggling because of the lack of a sufficient market, the strength of its competition, or other external influences. Its problems stem from a lack of expertise and poor execution. These internal issues of marketing and management are ultimately easier to correct than would be any external concerns. With good marketing and management, the Lodge should be able to make a consistent profit.

Sale of the Lodge is likely to result in a significant unpaid debt

The County has pledged its "good faith and credit" to repay the USDA-Rural Development loans (revenue bonds) even if the revenues from the project are insufficient to cover principal and interest payments. If the property is sold, the County will still be obligated to repay any difference between the selling price and the outstanding amount of the debt. Under a best case scenario, this will exceed \$300,000, but might go considerably higher if the lodge sells for less than its appraised value. Additionally, selling the Lodge could trigger a requirement to repay a portion of the EDA grants, in an amount up to 45.476 percent of

the sale proceeds. Adding the Lodge to the property tax roll would not generate enough tax revenue to pay the debt service on the remaining funds owed to the USDA, even if they only totaled \$300,000.

The Lodge can be a source of continuing revenue generation for the County

The analysis should end on a positive note. Based on the information available and the analysis presented in this report, it is the opinion of Place Dynamics that the Keweenaw Mountain Lodge can earn a sufficient income to cover its expenses (including the fees of a professional hospitality management company), provide funds for necessary upgrades, cover restructured debt payments, and make a profit for the County. The revenue it should produce is greater than the property taxes that the County can expect to receive if the property were privately owned.

Alternatives

Six potential strategies for addressing the needs of the Keweenaw Mountain Lodge were considered. The advantages and disadvantages of each are summarized in this section.

Keweenaw County could continue to own and operate the Keweenaw Mountain Lodge as it has done for over 80 years.

Over the past 80 years the Keweenaw Mountain Lodge has been operated by the County, either through its Road Commission or more recently under the County Board. During that time the Lodge has been allowed to deteriorate to its current condition and has usually posted a financial loss. There is no reason to believe that continued *management* by the County would produce different results. While well-intentioned, County employees and elected officials lack the industry knowledge and skills necessary to turn around Lodge operations.

Continued *ownership* of the Lodge by Keweenaw County does offer distinct advantages to help modernize and reposition the property. The County can seek grant assistance from public agencies and private foundations to help fund improvements, particularly if it able to renegotiate its Federal debt and come out of default. Lodge operations are also benefitted by not having to pay property taxes. Instead the County will receive the profit from the Lodge, which can exceed the taxes paid if the property were on the tax roll.

Keweenaw County could continue to own the Lodge, but allow it to be managed by a professional hospitality firm, as originally recommended in the 2005 Feasibility Study.

The 2005 Feasibility Study made the specific recommendation that the Lodge operations be contracted to a professional hospitality firm, and also recommended that the County hire a full-time marketing manager. Neither recommendation was acted upon. The lack of professional management vies with the inability to remain open year-round as the leading cause for the Lodge's current financial distress. Under the County's management the Lodge has not recognized its market and visitors' facility and service expectations for the property, it has not followed basic operational and data-keeping procedures, it has not benchmarked performance, policies, and amenities against its market competitors, it has not realized opportunities to enhance revenue, it has not effectively marketed the hotel, and it has not made necessary upgrades to rooms and facilities.

If it continues to own the Lodge, Keweenaw County needs the industry expertise of a professional hospitality management company to advise it concerning long-term strategy and investment, and provide day-to-day management of the property. A qualified company can help lead the Lodge to profitability by accomplishing several tasks:

- Advise the County concerning the prioritization of needed improvements, such as repairs to the structures, renovation of cabins and motel rooms, purchase of new furnishings and appliances, and other physical improvements.
- Implement best practices in operations and management, including customer service, facilities maintenance and housekeeping, quality control, inventory management and loss, and record-keeping and analysis.
- Execute a marketing strategy, to include enabling booking through travel search engines and marketing of the conference space as a location for business meetings.

Keweenaw County could sell the Lodge to a qualified buyer, for its continued use as a lodge, restaurant, and golf course, and stipulating minimum performance standards for investment and operation of the facilities.

If it chose to sell the Keweenaw Mountain Lodge, the County would first need to secure permission to do so from the USDA and the EDA. It would also need to adhere to a competitive sale process as spelled out under State of Michigan and Federal statutes and regulations.

In this first of two sale scenarios, the County's sale of the Lodge would include terms related to its continued operation as a lodge, restaurant, and golf course. The intent of any requirements would be to ensure that this important tourism asset remains in operation and continues to draw visitors to the county. This would also be consistent with part of the Federal grant and loan terms related to use, however, it would not satisfy the "public use" requirements that may require the County to repay a portion of the EDA grant, in addition to the principal and interest due on the USDA loans.

The Keweenaw Mountain Lodge has been appraised at \$1.5 million, although even the appraisal acknowledges that it may draw lower bids as a result of its location, seasonal use, condition, and history of not making a profit. At a \$1.5 million value, the Lodge would generate about \$43,545 per year in total property taxes (based on the Michigan Department of Revenue's online property tax estimator). Based on a millage 6.25, Keweenaw County would realize \$9,375 per year in taxes, with the balance of the total split among other taxing bodies.

Assuming that the Lodge could be sold at its appraised value, the county would be left with loan principal and interest debt totaling over \$300,000. This could increase significantly if the property was sold at a lower value or if the EDA were to require repayment of a portion of its grants. Financing \$300,000 over a 30-year term, the County might expect to need to make principal and interest payments of over \$17,000 per year, or roughly \$8,000 more than would be generated through new property taxes.

Keweenaw County could sell the lodge with no requirements in addition to restrictions already attached to the property, some of which might be vacated.

This scenario is much like the one described above, in that it considers sale of the property. The difference is that it does not impose any requirement related to future use in the sale. If the property would be

converted to another use it would need to be done with approval from the USDA and EDA, and as earlier noted, may trigger repayment a portion of the EDA grant. Aside from the uses currently at the site, the only other use that might be apparent is for housing.

This market analysis has not considered demand for residential uses. Any such use would add to the property assessment, however, it would be developed over time and would need to be at a significant scale in order to generate the tax revenue necessary to repay the debt. This is not considered very likely.

Of course, the Lodge might be purchased by a nonprofit entity, in which case it may not generate any new property tax.

Keweenaw County could turn the property over to its creditors.

There is process whereby the County could turn the asset over to the Federal government for disposition. This option should be considered the least desirable, as the County is still liable for the loan principal and interest, and potentially grant repayment, but will have no control over the outcome of its disposition.

Keweenaw County could continue to own the Lodge under scenario 1 or 2, and supplement its income with a tax levy earmarked for debt repayment.

The final option seeks to facilitate renegotiation of the USDA-Rural Development loans (revenue bonds) by designating a portion of the County's general tax levy to supplement Lodge income, as necessary. Funds may be identified in the current budget, raised through an increase in the tax levy, or earmarked from a special fund. In reality, the Federal government already has a claim on all of these existing or potential revenues for repayment of the debt.

Federal agencies such as USDA-Rural Development, in lending to local governments, usually demonstrate a great deal of flexibility in working with borrowers to restructure debt to better reflect the ability to repay. In the case of Keweenaw County, the Lodge has a history of not generating the revenue necessary to meet the required payments of principal and interest. Unfortunately, it has usually operated at a loss. To ensure that it has the funds available to make loan payments, provide reassurance to the USDA, and strengthen its negotiating position, Keweenaw County can earmark funds from its budget which will be applied to the Lodge and its debt.

Recommended Best Use / Strategy for the Keweenaw Mountain Lodge

Place Dynamics was asked to provide an opinion concerning the best course of action for Keweenaw County to pursue concerning the Keweenaw Mountain Lodge and the county's debts and other requirements related to ownership and operation of the property. We believe that the best course of action for the County to pursue is to retain ownership of the property, renegotiate the terms of its USDA-Rural Development debts, and secure the services of a professional hospitality management company to provide third-party management of the Lodge, as originally recommended in the 2005 Feasibility Study.

This opinion is based on two key assumptions. The first is that sale of the property is very likely to leave a substantial unpaid debt. Even under the best-case scenario the County would still need to repay more than \$300,000 to the USDA, and it is far more likely that the actual figure will exceed that by a substantial amount. Sale could also trigger a requirement to repay the EDA grant, in an amount equal to nearly half of the sale price, easily taking the total repayment over \$1 million.

The second assumption is that the Keweenaw Mountain Lodge can be operated as a profit-making business, generating the revenue necessary to meet a restructured loan payment schedule. There is a strong market for lodging and dining in the Keweenaw Peninsula and the Lodge has the ability to capture a greater market share. In addition to this additional revenue, good management will result in greater profitability. The revenue generated for the County through ownership and effective management of the Lodge will exceed the property tax revenue that it might receive if the lodge were sold to a private, for-profit entity.

This recommended approach comes with several conditions. All of these conditions must be met if Keweenaw County expects to have success with this approach.

■ Retain a professional management company to operate the Lodge.

The County has been unable to successfully manage the Lodge. County officials and volunteers are well-intentioned, but lack the industry knowledge and skills necessary to provide effective management. A professional hospitality management company can fill that role. With permission from the USDA, and following guidelines proscribed under the loan program, the County can enter into a multi-year contract for these services. Typically, this will be a three-year contract with the possibility for two one-year extensions. The cost should be four to six percent of gross revenue. Terms of the USDA loans may preclude a typical base plus commission fee.

Keweenaw County must have an “arm’s-length” relationship with the company it hires. The County will be responsible for setting the vision and goals, while the management company will have the responsibility for day-to-day operations and execution of a plan for the property. The management company will:

- Prepare and submit an annual budget and management plan for County approval, and operate the Lodge in accordance with the budget, management plan, terms of the management contract, and all applicable laws and regulations.
- Manage all aspects of the business, including the hotel/cabins, restaurant/bar, conference center, and golf course.
- Be responsible for hiring, training, and supervising all employees. These will be employees of the management company, and not County employees.
- Develop and execute a marketing strategy focused on the hotel/cabins, conference center, and restaurant/bar.
- Develop menus and service offerings, policies for use of the Lodge, and pricing for products and services.
- Purchase supplies and enter into contracts for services for the property.
- Advise the County concerning capital expenditures such as furniture and fixtures, equipment, and building and grounds improvements.
- Prepare monthly financial reports and activity reports summarizing actions taken, issues of which the County should be aware, and key metrics for the Lodge and market such as occupancy, average daily rate, and revenue per available room.

- Establish a capital improvement plan (CIP) to invest in renovations and enhancements to the Lodge.

To varying degrees, renovations and upgrades are needed in all of the cabins and hotel rooms. There is also a need for renovations in the main lodge, and the County should be looking forward to needs to refresh the banquet/conference space in the near future. Restoration may entail structural and roof repairs to some cabins, along with new bathrooms in all cabins and hotel rooms. Cabins that were converted in 2008 should be restored to their original interior appearance, while untouched cabins will require less work to achieve that result. The hotel rooms should be completely renovated into king and two-queen suites. Many furnishings will need to be replaced and the rooms should be equipped with new refrigerators, microwaves, and flat panel televisions. Renovations are needed to the office and hotel reception area in the main lodge, which also requires new carpet in the dining area.

These renovations can be phased over a four-year period. Once the renovations are completed, the Lodge should plan to refresh about a quarter of its rooms each year, to include things such as painting, replacing worn or dated furnishings, and performing periodic maintenance on the structures. A more extensive renovation should be planned every eight years. Once the County has caught up with the initial renovation need, it should plan to set aside five to six percent of annual gross revenue in a fund for renovations and capital improvements.

- Renegotiate a realistic repayment of the USDA-Rural Development loans (revenue bonds).

The USDA is unlikely to forgive all or even a portion of the outstanding loans. In similar circumstances it will often agree to renegotiate the terms of repayment to more accurately reflect the revenue stream that is available. The County may seek to structure repayment over a longer term, renegotiate the interest rate (currently less than two percent on may government-issued bonds, while Keweenaw County is paying over four percent on its debt), or lower payments with a final balloon payment. If a restructuring is approved and the loan is no longer considered in default, the County would again be eligible for grant programs that it may explore to help renovate the property or develop new amenities.

As a component of this strategy, the County should give strong consideration to earmarking a portion of its general fund budget, or increasing its property tax levy, to guarantee a pool of funds for renovations to the property and make loan payments. This may be required by the USDA as a condition of restructuring the debt, but it is also a sound financial planning action to ensure that the County does not, once again, find itself in default.

Appendix A: Market Assessment

This market assessment is intended to define the total demand and patterns of visitation in the area, with an emphasis on the lodging and dining sectors. Past management of the Keweenaw Mountain Lodge does not appear to have a good grasp of the size of the market, the ability to pay, the expectations of potential lodgers or diners, competitive positioning of the Lodge, or other critical market considerations.

Travel in the Keweenaw Peninsula

Outdoor recreation and heritage tourism are the biggest draws of the Keweenaw Peninsula. Particularly with regard to outdoor activities, the area competes with many similar places in Michigan's Upper Peninsula, Wisconsin, and Minnesota. Competing regions such as Pictured Rocks National Lakeshore, the Porcupine Mountains, the Hiawatha, Ottawa, Chequamegon, and Superior National Forests, and various state parks are publicly owned, well-known, and easily found on the internet or elsewhere when researching destinations. This is not true of the conservancy lands in Keweenaw County that are open to the public, but are owned by private organizations, and provide many of the recreational sites used by visitors. Other potentially significant assets, such as many waterfalls, are inaccessible as they are located on private land.

The trail system in Keweenaw County is an important attraction, and this is especially true for mountain biking. Copper Harbor plays an important role as a jumping-off point for trips to Isle Royale National Park, with the shortest ferry service to the park (and a daily sunset cruise from Copper Harbor). As with most of the Lake Superior region, fall colors bring in many visitors. Although visitation drops off sharply in shoulder seasons, the area does attract cross-country and downhill skiers (Mount Bohemia, Swedetown, and Mont Ripley), and snowmobilers, who sustain relatively high occupancy at hotels remaining open in the winter months.

Many of the area's historical sites are organized under the Keweenaw National Historical Park. Its public and private attractions include the commercial districts of Houghton, Hancock, and Calumet, the Delaware, Central, and Quincy Mines, several lighthouses, and many museums and historical buildings. The mines are perhaps the area's most unique attractions. The Delaware Mine offers self-guided tours into the mine and the remains of some of its original buildings. The Quincy Mine is far more extensive, with tours including the mine, a cog rail tram ride, and several mine buildings.

According to research commissioned by Travel Michigan and conducted by Tourism Economics (2015), overnight visitors spend an average of \$385 per stay. Given the Keweenaw's distance from major markets, a large portion of its visitors are spending at least one night in the area. As a result, visitors bring a considerable amount of revenue to local businesses.

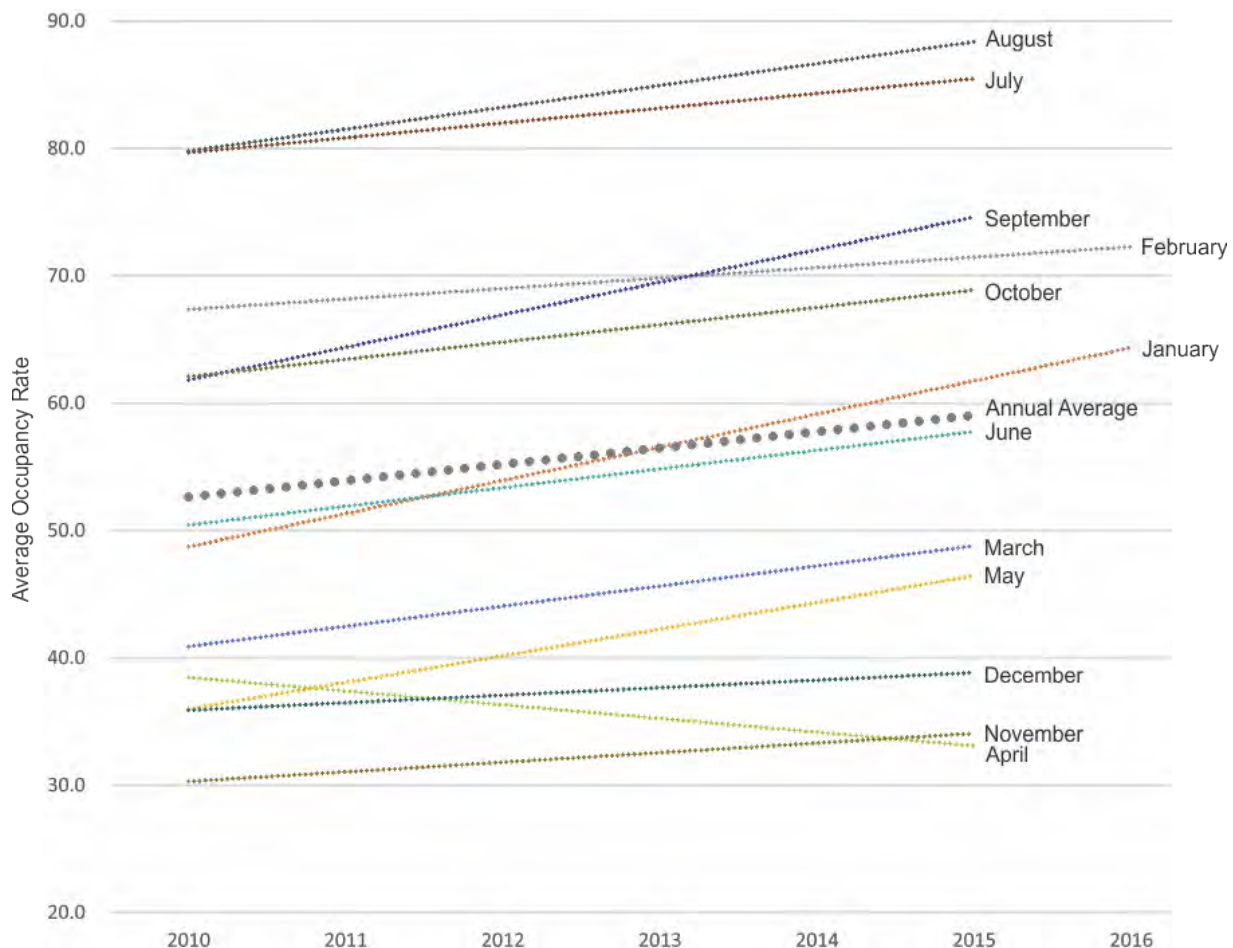
Competition for Lodging

Visitors who may stay at the Keweenaw Mountain Lodge have many alternative properties to consider. A search identified 42 hotels, motels, bed and breakfast inns, or resorts from Houghton to the north. These do not include smaller properties, such as single cabins or homes available for rent. The area's chain hotels are all located in Houghton, Hancock, or Calumet. A full list of these competitors is located at the end of this chapter.

Lodging Market

The Keweenaw Peninsula has a very solid lodging market with exceptional peaks for multi-seasonal recreational travel. Data for reporting hotels in the market was obtained from STR Global. The hotels in the sample are all chain properties at a similar tier to the Keweenaw Mountain Lodge, and are, with few exceptions, the Lodge's primary competitors.

MONTHLY OCCUPANCY TREND AMONG COMPETITIVE HOTELS IN THE MARKET

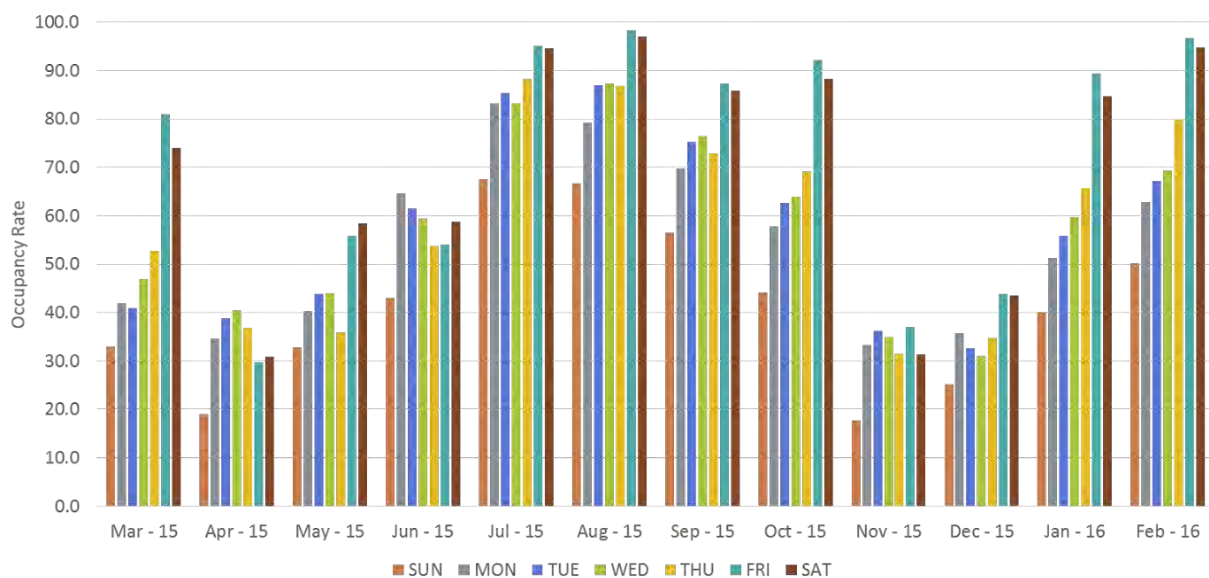


OCCUPANCY (%)

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	ANNUAL	Feb YTD
2010	49.2	67.7	42.0	36.1	37.6	47.6	79.4	79.6	61.5	62.3	27.5	34.8	52.1	58.0
2011	52.4	64.4	44.6	37.9	32.9	52.3	81.9	78.1	65.5	61.8	32.0	36.5	53.3	58.1
2012	56.7	74.3	39.2	40.7	40.6	55.6	80.1	85.4	66.4	68.3	34.3	35.2	56.3	65.0
2013	53.0	72.5	47.5	34.5	48.8	59.5	85.1	89.0	68.8	64.1	33.2	41.5	58.1	62.2
2014	51.7	64.4	44.3	32.2	42.4	52.6	83.3	86.9	72.1	66.6	34.7	41.0	56.0	57.7
2015	68.3	71.4	51.5	33.2	44.9	56.9	85.7	85.6	74.9	69.8	31.3	35.0	59.0	69.8
2016	64.5	74.0												69.0
AVG	56.5	69.8	44.8	35.8	41.2	54.1	82.6	84.1	68.2	65.5	32.2	37.4	55.8	62.8

Occupancy has been trending upward overall, and in all months except April, for the past five years. Annual occupancy has increased from 52.1 percent in 2010 to 59.0 percent in 2015. This compares to a national average of 65.6 percent, however, it should be recognized as a good average for a remote market heavily dependent upon seasonal tourism, and in which many hotels and attractions are closed for part of the year. The Keweenaw Peninsula has managed to develop a strong tourism market for summer/early fall and winter recreation. Average occupancy in the market exceeds the national average in peak summer and winter months, and drops below average in the late fall and spring months. From May through October, occupancy averages 66.0 percent. In the four peak months from July through October it is 75.1 percent.

OCCUPANCY BY DAY OF WEEK OVER THE PAST TWELVE MONTHS



OCCUPANCY (%)

	SUN	MON	TUE	WED	THU	FRI	SAT	MONTH
Mar - 15	32.9	41.8	40.9	46.9	52.7	80.9	73.9	51.5
Apr - 15	19.1	34.5	38.8	40.4	36.8	29.7	30.8	33.2
May - 15	32.8	40.3	43.8	44.0	35.8	55.9	58.5	44.9
Jun - 15	43.1	64.5	61.5	59.5	53.7	54.1	58.8	56.9
Jul - 15	67.5	83.2	85.3	83.3	88.3	95.0	94.6	85.7
Aug - 15	66.7	79.1	87.0	87.3	86.9	98.4	97.0	85.6
Sep - 15	56.5	69.8	75.3	76.4	72.9	87.4	85.9	74.9
Oct - 15	44.2	57.8	62.7	63.9	69.2	92.1	88.2	69.8
Nov - 15	17.6	33.3	36.3	35.0	31.6	37.0	31.3	31.3
Dec - 15	25.1	35.7	32.6	31.1	34.8	43.8	43.5	35.0
Jan - 16	40.1	51.4	55.8	59.7	65.7	89.4	84.7	64.5
Feb - 16	50.1	62.7	67.3	69.3	79.8	96.7	94.8	74.0
Total Year	41.0	54.7	56.9	58.0	58.8	72.5	71.0	58.9

Friday and Saturday are the peak nights over much of the year, approaching or exceeding 90 percent occupancy in six months. During January, February, March, and October, weekend travel becomes considerably more important than weekdays. In the summer months of June, July, August, and September, there is less of a difference between weekday and weekend occupancy rates. This data reinforces two points made earlier in the analysis:

- 1) The Keweenaw Mountain Lodge should adopt a dynamic pricing approach to vary rates by day and month, reflecting demand, to price rooms at higher rates during peaks when rooms are scarce, and at lower rates during slower periods when price may have more of an impact on occupancy.
- 2) The Lodge should reconsider room discounts that result in lower revenue at times when it could expect to fill rooms at higher rates.

The 2005 *Feasibility Study with Financial Projections for the Proposed Winterization of the Keweenaw Mountain Lodge and the Addition of a Conference Center (Feasibility Study)* projected a 2010 average occupancy of 70 percent with an average daily rate of \$120. As the Lodge has not maintained records and cannot provide actual data concerning occupancy and room rates, Place Dynamics has estimated an average 2015 daily room rate of \$135, and divided total room revenue by this figure.

The Lodge is typically open from Mother's Day through the third Saturday in October. It is estimated to have booked 3,530 room nights in 2015, during which it would have been open from May 10th through October 17th. This is from a total of 6,720 room nights available, resulting in an average occupancy rate of about 52.5 percent. Even if the assumed average room rate is dropped to \$115 per night, occupancy only increases to 61.7 percent. It is therefore highly probable that the Lodge's actual performance fell short of the projections in the *Feasibility Study*, and that the Lodge is also underperforming compared to other properties in the market (averaging 66.0 percent from May through October).

Given its unique qualities, the Keweenaw Mountain Lodge should be able to achieve or even exceed the 70 percent occupancy rate projected in the *Feasibility Study* during its summer/fall season. It has not done so as a result of several management deficiencies such as market positioning, the failure to enable reservations through travel booking sites, the lack of a good marketing program for the hotel and the conference center, and operational issues resulting in poor reviews of the property. Increasing occupancy to 70 percent would result in an addition 1,176 room nights per year, and \$158,760 in additional revenue at an average rate of \$135 per room.

Dining Market

The demand for dining is comprised of three segments with differing purchase potential characteristics:

- 1) year-round residents of the Keweenaw Peninsula;
- 2) seasonal residents or vacation home owners;
- 3) visitors staying at area lodging establishments and other visitors including day-trippers.

- Keweenaw County residents are estimated to have spent a total of \$3,245,000 dining out in 2015, not all of which will be spent in the county. An additional \$53,894,000 in dining market potential was generated by residents of Houghton County, a portion of which may be captured by Keweenaw County businesses. The total resident spending on dining out believed to be captured by Keweenaw County businesses is \$4,305,000.

- There are 1,306 vacation or seasonal homes in Keweenaw County. Actual use of a second home can vary greatly according to location. With no more recent data available, an average of 86 days, determined in a 1991 study by Michigan State University, was used in this analysis. If spending on dining out during a stay at a vacation property is comparable to spending at their permanent residence, these seasonal residents would spend an estimate \$1,094,000 during their stays. Two-thirds of this, or about \$711,000, is thought to be captured in the county.
- Extrapolating from 2014 survey research conducted by the Michigan Department of Tourism, as well as estimates of the total number of hotel stays in the market, Place Dynamics arrived at an estimate of 242,700 annual visitor trips to the Keweenaw Peninsula, with \$8,007,000 in total spending on food and beverages. Somewhat more than half of that (56.3 percent) is estimated to be realized during the May through October season in which the Lodge is open. This would total \$4,508,000.

Analysis of these segments results in an estimate of \$12,346,000 spent on dining out by permanent and seasonal residents, and visitors to Keweenaw County. Using the approaches described, Place Dynamics arrived at an estimate of \$9,524,000 of restaurant sales captured by businesses in the market. With 37 restaurants, the average sales come out to about \$258,800. Individual restaurants will have higher or lower sales based on factors including menu and pricing, alcohol sales, seasonal closures, location, and other variables. Alternatively, based on an examination of sales tax collections, Place Dynamics has estimated the combined sales of all restaurants at \$9,564,000. These two approaches result in comparable figures.

As a comparison, Place Dynamics ran a report using ESRI Business Analyst, a service commonly used to prepare market analyses. ESRI has identified 19 restaurants within a 60-minute drive time of Copper Harbor, taking in all of Keweenaw County. These are estimated to have sales of \$8,575,000. These numbers were not considered reliable due to the large number of businesses not identified within the study area. As an example, only the Tamarack Inn is included in Copper Harbor, and the report does not even identify the Keweenaw Mountain Lodge. Additionally, these sales estimates are based simply on industry sales averages, and do not consider factors such as seasonal business closures.

With 2015 income totaling about \$276,000, the restaurant at the Keweenaw Mountain Lodge is performing near the market average. Even though it is open less than half of the year, the restaurant should be achieving higher sales. Its position as a better-quality restaurant, the presence of the golf course and conference center to drive additional traffic, and unique features of the property should bring in a greater number of diners.

The restaurant currently has a 2.9 percent market share. Increasing this to 4.0 percent would bring revenue to \$381,000, or an additional \$105,000 in annual income compared to 2015. Several initiatives might help to reach this goal, such as positioning the restaurant as an unique venue in the region (ex., fresh/local foods, grown on the grounds, historic atmosphere), refreshing the menu, improving the quality of both the food and service, establishing better inventory control, providing room service to lodge guests, reinstating breakfast service, increasing conference center bookings, and additional marketing.

Conference / Meeting Market

The conference center within the Keweenaw Mountain Lodge is another unique venue within the county. Its local competition comes chiefly from the Magnuson Hotel Franklin Square Inn in Houghton, and the new Siskiwit Reception Hall and Conference Center in Calumet. This is a modern facility opened in 2015. It has a single 4,000 square foot room that will seat up to 250 people, depending on the configuration. It is equipped with a catering kitchen and typical social or meeting event amenities. The Magnussen Hotel Franklin Square Inn is located in Houghton's downtown. The hotel features a total of 5,600 square feet of meeting space, with the largest room configuration at 3,800 square feet. It is served by the onsite restaurant. The ballroom at Michigan Technological University's Memorial Union will seat up to 500 guests, and along with other spaces, can be divided into multiple smaller meeting room configurations.

A handful of chain hotels in the area have small meeting rooms that will accommodate 40 to 50 people, at most. These can compete for local business meetings or training sessions. Some of the area restaurants will also have small banquet facilities or private rooms. These are suitable for small social events, but will not typically attract business meetings.

Demand for meeting or banquet space can be divided into social and business components. Business activities requiring meeting space can include business meetings, conferences and trade shows, seminars and training sessions, and similar activities. These events require a professional-looking environment and amenities including food service and access to business technology. These bookings are valued in that they often spend more with the host facility and can lead to repeat business. They also tend to be conducted on weekdays, driving demand for hotel rooms when there is less recreational traffic. The peak times for these events – particularly among organizational conferences, trade shows, and similar activities – is in the fall and spring seasons.

Social or non-corporate events are often given the term SMERF, which stands for social, military, educational, religious, and fraternal. These events are most often held during weekend nights in the summer, or again around the winter holidays. Examples may include weddings and family reunions, holiday parties, fundraisers, dinners, dances, and other social events. Two characteristics of the local market impose a severe limitation on the amount of this meeting or banquet activity that can be attracted to the Keweenaw Mountain Lodge. A characteristic related to the facility itself – its closure through half of the year – imposes a third limitation.

The Keweenaw Peninsula has a small population base and even smaller base of businesses that would generate demand for meeting space. Keweenaw County has a population of 2,191, and 63 businesses. Houghton County has 36,225 residents and 876 businesses. Most business-driven meeting activity will be generated by larger establishments. There are only 88 businesses within the two counties that have at least 20 employees, and all but one are in Houghton County.

Even in the "local" market, potential customers in the urban centers of Calumet, Hancock, and Houghton will have a drive of an hour or more to reach the Keweenaw Mountain Lodge. This will impact its attractiveness as an event venue. Within a regional or statewide market, the Lodge's remote location presents other challenges. The conferences and seminars scheduled by statewide organizations are an important source of business, but the time required to get to the Upper Peninsula, and especially to Copper Harbor, eliminates the location for most organizations. Additionally, the small number of rooms at the Lodge makes it less appealing for large events where people will be traveling.

Typically, about one in three attendees at an event including an overnight stay will book a hotel room outside of the event property. Most rooms are booked by people traveling over 100 miles to the event.

With minimal local demand of any type, and the difficulty in securing larger organizational events, the remaining opportunities are destination social activities and small business functions. In particular, the Lodge would be an attractive location for business meetings, and should be marketed as an executive retreat center. Area attractions support this use by offering activities for participants and their spouses.

PROPERTY	LOCATION	ROOMS	POOL/SPA	WI-FI	PETS	RATES	BOOK – HOTEL	BOOK – OTHER	YEAR-ROUND	DESCRIPTION
AmericInn of Calumet	Calumet	67	Y	Y	Y	\$100-150	Y	Y	Y	1-2 bedroom suites, executive & handicap rooms, fireplaces, meeting room
Aqua Log Cabin Resort	Lac La Belle	12		Y	Y	\$195 winter \$300 summer	Y		Y	Located on 100-acre resort, fireplace, kitchen, screened porch, use of boats, restaurant and bar on property, rates include dinner and breakfast
Bella Vista Motel	Copper Harbor	22		Y		\$75-125				13 hotel rooms and 9 cottages. Kitchens, fireplaces, picnic tables, grills, cottages do not offer housekeeping
Brockway Inn Motel & Coffeehouse	Copper Harbor	6		Y		\$62-77				Attached coffee shop
Centennial Cottages	Calumet	10		Y		\$95			Y	Newer cottages with kitchen and AC, no housekeeping
Country Inn & Suites by Carlson	Houghton	75	Y	Y	Y	\$110-180	Y	Y	Y	King, queen and extended stay suites, pool and exercise facility, meeting room
Eagle Harbor Inn	Eagle Harbor	7				\$82			Y	Few amenities; restaurant on site
Eagle Lodge Lakeside Cabins	Eagle Harbor	10			Y	\$85-165				Cabins/cottages on the shore of Lake Superior, kitchen, no housekeeping
Fitzgerald's Eagle River Inn Hotel & Restaurant	Eagle River	12				\$100-135	Y			Spa and exercise room, brewery / restaurant on site
Greenlight Cabins & RV Park	Chassell	5							Y	Three cabins in winter, kitchens, 14 RV sites, snowmobile rental
Hamar House Bed & Breakfast	Chassell	3		Y		\$95-125			Y	Minimum two-night booking
Holiday Inn Express	Houghton	61	Y	Y	Y	\$130-230	Y	Y	Y	Suites, fitness center, business center, meeting room, microwave and refrigerator
Houghton Super 8 Motel	Houghton	86	Y	Y		\$85-125	Y	Y	Y	Meeting room seating up to 125 people, business center
Inn on Lac La Belle	Lac La Belle	5		Y		\$150-300	Y		Y	On lake, part of Mt. Bohemia and can be booked with all resort activities.

PROPERTY	LOCATION	ROOMS	POOL/SPA	WI-FI	PETS	RATES	BOOK – HOTEL	BOOK – OTHER	YEAR-ROUND	DESCRIPTION
Julie's Motor Inn	Houghton	22		Y	Y	\$45-80			Y	Budget hotel
King Copper Motel	Copper Harbor	34		Y					Y	Simple hotel on Lake Superior with private beach
Krupp's Resort	Twin Lakes	10		Y	Y	\$75-130			Y	1, 2, and 3 bedroom housekeeping cabins on Twin Lakes
Lac La Belle Lodge	Lac La Belle	7			Y	\$115-269			Y	Six cabins and 4-bedroom main house, linen services extra
Lake Breeze Resort	Eagle Harbor	10								Guest rooms in a converted 1859 warehouse, on Lake Superior
Lake Fanny Hooe Resort & Campground	Copper Harbor	17			Y	\$100-130				Small hotel and cabins along with campground, on inland lake
Laurium Manor Inn	Laurium	10		Y		\$89-205			Y	Bed and breakfast in historic mansion
Magnuson Copper Crown Motel	Hancock	46	Y	Y	Y	\$60-116	Y	Y	Y	Standard hotel
Magnuson Hotel Franklin Square Inn	Houghton	105	Y	Y		\$100-200	Y	Y	Y	Full service hotel with suites, spa, dining, 5400 sq. ft. conference center
Mariner North Resort	Copper Harbor	18		Y	Y				Y	Motel and five cabins, restaurant
Minnetonka Resort	Copper Harbor	17		Y	Y	\$70-135				Motel and 1 and 2 bedroom cottages
Mount Bohemia Adventure Resort	Mohawk	18		Y	Y	\$160-330				Modern cabins (6) and yurts (12) at base of Mt. Bohemia ski runs
Mount Bohemia Hostel	Mohawk	*				\$35				Hostel at base of ski runs
North Port Motel	Copper Harbor	6		Y		\$60-75				Older small hotel
Pines Resort	Copper Harbor	15		Y	Y	\$80-150			Y	Motel rooms and 1 and 2 bedroom cabins in town
Ramada Inn - Waterfront	Hancock	51	Y	Y		\$115-165	Y	Y	Y	Suites, restaurant, room service, 2000 sq. ft. meeting room, business center, airport shuttle
Rock Harbor Lodge	Isle Royale	80				\$224-256				Only lodging on Isle Royale, 60 motel rooms and 20 cottages
Sheridan on the Lake Bed & Breakfast	Houghton	3		Y		\$119-149			Y	Bed and breakfast on Portage Lake
Shoreline Resort	Eagle Harbor	9			Y					Small hotel and one cottage on Lake Superior, access to boats
Trailside Lodge	Calumet	15		Y	Y	\$79/169	Y		Y	Renovated motel rooms, one with kitchenette
Travelodge of Houghton	Houghton	67	Y	Y	Y	\$84-139	Y	Y	Y	Economy hotel in downtown Houghton
Vic's Cabins	Calumet	12		Y	Y	\$50-65				1 and 2 bedroom cabins with kitchens
Victorian Hall B & B	Laurium	8		Y		\$99-159			Y	Bed and breakfast in historic mansion
White House Motel	Mohawk	10		Y	Y	\$58-71			Y	Budget hotel, refrigerator and microwave in room
TOTAL ROOMS		971								

There are 971 hotel rooms in the market with 155,360 total room nights available during the 160-day period in which the Keweenaw Mountain Lodge is typically open.

Appendix B: Operational and Facility Considerations

The following is not a comprehensive list of all enhancements and initiatives that might be taken to improve performance of the Keweenaw Mountain Lodge, but it should serve as a starting point for the development of a business plan. Some of these are low-cost actions that are easy to implement, and can be undertaken as soon as the 2016 season. Others will need to be implemented over a period of several years.

Performance Goals

The Lodge can be made profitable through a combination of increased sales and cost-cutting. The market analysis suggests that the Lodge should be able to capture an additional \$158,000 in lodging revenue and \$105,000 in restaurant sales. Given that many of the changes necessary to achieve these increases will take time to implement, it would be realistic to establish a goal of attaining 75 percent of these revenue increases by 2020. This would increase total revenue by \$193,500.

Cost savings can be realized especially in the area of employment. Bringing employment costs closer to the industry average will result in substantial savings. Progress has been made toward these reductions, with employment costs declining from 50.3 percent of total income in 2014, to 45.4 percent in 2015. As budgeted, they will make up 44.4 percent of total projected income in 2016. A reasonable goal would be to reduce them an additional one to two percent each year until employment costs total no more than 38 percent of total revenue.

These market estimates and suggested goals are conservative, and leave room for the facility to grow its market share and profitability. Additionally, they do not consider other revenue increases that might be realized through higher pricing, additional sources of sales (like new services or retail offerings), or extensions to the season.

Market Positioning / Value Proposition

The Keweenaw Mountain Lodge needs to claim, and live up to its position as a top-of-market establishment, both in the hotel and in the restaurant. Visitors to the Keweenaw Peninsula are expecting a higher quality than the Lodge has previously delivered. The key point of differentiation for the Lodge is its historic and rustic character, evocative of the national park lodges. This brand, or value proposition, needs to be reinforced through design, amenities, service, and marketing. It is a driving consideration in many of the recommended improvements suggested in this appendix.

Changes in the restaurant should reinforce the overall brand of the Lodge and appeal to visitors to the area. The Lodge has already made a small, unleveraged step toward one of the fastest-growing trends in the industry. It grows herbs used in the kitchen. Along with new lunch and dinner menus reflecting local specialties, the restaurant should seek to source fresh, local products when possible.

Facility Needs

Several investments are recommended in the Lodge buildings. Again, the design of these improvements should complement the original structure in order to reinforce the Lodge's brand. These changes can be implemented over time based on cost and priorities, but will ideally be completed in a five-year window through 2020.

- Main lodge – Few changes need to be made to the main lodge building in the near term. Aside from the dining room carpet, these improvements could be considered part of a longer-term investment strategy, however, they should still be completed to enhance the visitor experience.
 - Hotel reception desk and office – Functionally as well as aesthetically, the current reception desk does not work well. If the lobby desk were moved back a few feet it would provide more room for guests to stand out of the way of the entry hall. The desk, lobby, and visible part of the office should be designed to match the historic parts of the building.
 - Dining rooms – The primary need in this area is to replace the worn and heavily soiled carpet.
 - Bar – The current bar does not match the style and quality of other parts of the building. Painting it to match the log walls of the building will help to mask some of the differences. It should eventually be replaced.
 - Women’s lounge – This space should be repurposed for productive use. The lounge may be a good place to set up a complimentary continental breakfast for overnight guests. It would also be a good location for a guest business center, with a computer having internet access, and a printer. The door can be keyed, so that only hotel guests have access.

- Hotel rooms – Hotel rooms must be renovated, taking advantage of their large size to create king bed and double queen bed suites. Existing bathrooms need to be completely removed and redesigned as a modern, functional, attractive space. Sound deadening insulation should be placed in walls between rooms. All wallpaper should be removed and the walls painted, carpets should be replaced, and the rooms should get all new furniture and décor.

New amenities will include a phone, a microwave oven, a mini refrigerator, a coffeemaker, a flat panel television, lamps that incorporate extra outlets and USB charging stations, and a fan. Air conditioning may be an option to consider. Additionally, wi-fi internet service needs to be available in the hotel rooms.

These rooms can be comparable in quality to suites at the Holiday Inn Express in Houghton, which can command over \$200 per night at peak times. One possible strategy would be to renovate two or more rooms each year, beginning by creating king suites, and determining whether the remaining rooms should also have king beds or two queens, based on guest demand.

- Cabins – Guests staying in the cabins will be seeking the historic/rustic character of a 1930’s lodge, but also the amenities of a new hotel. The Keweenaw Mountain Lodge will need to deliver this by restoring the cabins to their original condition, while introducing modern features. As with modern hotel suites, the renovated cabins can command a premium price in the market.

The most critical needs are structural, and might entail replacement of leaking roofs, repairs to rotting logs, sealing leaking windows, and repairing porches. All cabins should also be provided with several basic amenities – a phone, a microwave oven, a mini refrigerator, a coffeemaker, a flat panel television, lamps that incorporate extra outlets and USB charging stations, and two or more fans based on the number of bedrooms. Additionally, wi-fi internet service needs to be available in the cabins.

- Original cabins – These cabins require less work to restore, and should be the first priority. The largest cost will be in renovating the bathrooms, where in addition to repairing walls and floors, the vanities need to be replaced with a fixture more in keeping with the design of the cabin. Cabin interiors should be painted, and non-matching fixtures such as wooden coat hooks and drapery rods, should be painted to match the walls. The ceiling tiles, which are aging badly, can be replaced by stained plywood, with lattice over the seams. This would have been appropriate to the period, will look attractive, and has a low cost. The ceiling fixtures can be replaced with ones that are more attractive.

New furnishings are needed, and a few original pieces still exist to model for an appropriate style. Along with new beds, new matched bedding is needed, as well as curtains with full black-out panels. The metal coat racks in bedrooms need to be removed. A wardrobe can replace the dresser in the room.

- Winterized (altered) cabins – The quality of renovations varies among winterized cabins. Some have drywall while others were paneled and have an appearance many reviews describe as being from the 1970's. As considerable work will be required to restore these cabins, starting with the paneled, dated-looking ones will provide a more immediate return on the investment. Ideally, these should have their log walls exposed and repaired. In all other ways, they should be restored, updated, and furnished as will be the "original" cabins.
- Golf pro shop – The Small Business Development Center (SBDC) has rightly noted the opportunity to establish a retail store in the pro shop. This store can sell a variety of goods to produce new revenue for the Lodge.
 - Food items including snacks, beverages, and some simple meal items – The selection should appeal to the market. For example, snacks might include trail bars, dried fruits, specialty chocolate bars, and organic products. Meal items might include hot dogs and buns, items to make s'mores, and a small selection of microwave meals.
 - Convenience items for visitors – This can include toiletries, medicines, and items like plastic rain ponchos, that a visitor might need when staying in the area.
 - Lodge-themed items – The Lodge can sell branded items such as t-shirts, baseball caps, tumblers, and other items.
 - Local products – The store can be a destination if it is known to be a location where unique, locally-made items can be purchased. This might include works of art and photography, hand-made soaps, locally-produced foods (such as at the Jampot), and other items.
 - Grounds – Minor improvements to the grounds may help to bring traffic to the lodge and improve the visitor experience.
 - Bike storage and bike washing stations – Mountain biking draws many visitors to the area. Cater to this group by providing bike lockers and racks where Lodge and restaurant

guests can leave their bikes. Provide a washing station so that they can clean their bikes after riding.

- Signage for the Lodge – Take advantage of the traffic that crosses the Lodge property. Place menus and room information on signs at trailheads. Place a menu at the pro shop/retail store.
- Cabin parking – designate parking spaces in front of the cabins by placing a three-foot high log post, painted to match the cabins, with the cabin number next to the appropriate parking stall. This should help to eliminate complaints by cabin guests that there was no parking available because others had taken it.
- Picnic area – A picnic area may be attractive to both Lodge guests and people passing through on the trails. It can include a couple grills, providing an alternative for people who expected to find a kitchen. The hamburgers, bratwurst, chips, microbrews, and charcoal can all be sold in the Lodge’s retail store.

Operational Considerations

Management has been the reason for the Lodge’s history of poor performance. The following is a list of only some issues that need to be corrected to improve efficiency, marketing, revenue, and more.

- Hotel operations – There are many needs for improvement in hotel operations. The following are only a handful of operational considerations mostly related to marketing and room reservations and management.
 - Dynamic pricing – Varying room pricing according to demand for rooms is a strategy used by nearly all chain and better quality hotels. Guests will pay more during peak times, while lower prices may help to fill rooms when there is less demand. A room software package will have this functionality built in.
 - Room discounts – The Lodge should reconsider the practice of discounting its rooms during the busiest nights of the year.
 - Travel site booking – The Lodge must accept bookings through travel sites. The number of people searching these sites for availability and reviews, and to compare options, far exceeds the number who will search an independent hotel’s web site.
 - Software – Many available POS software systems will not only facilitate areas of hotel operations, but can be used across the restaurant, golf course, and retail store as well. These software programs integrate with online booking engines.
 - Phone service – switching to voice over internet (VOIP) service can provide substantial cost savings, provided that reliable internet service is available.
 - Website improvements – Guests using the website are not given all of the information they need about the property and rooms, such as hotel policies, descriptions and photos of the different rooms, details about the conference/banquet center, information about trails and area attractions, etc. PDFs are difficult to read on a mobile device and are not indexed by search engines, so information contained in them will not appear in a web search.

- Guest room locks – The Lodge is still using keys for its guest room locks, which should all be replaced with an electronic locking system. This addresses both convenience and safety concerns, particularly for guests arriving after hours. A lock with a keypad or linked to a cell phone application would allow the Lodge to assign a code to gain entry, instead of leaving a key where it might be picked up by anyone.
 - Packages / concierge service – Guests might be encouraged to visit other area attractions. Information about these should be provided through the website and in each room, and hotel staff should be available to help book tours for guests.
 - Wi-fi – Reliable internet service is essential, especially when the Lodge is seeking to attract business meetings. This will ideally be wi-fi in the main building and all guest rooms. If necessary, Ethernet connections can be provided in guest rooms, and the hotel should have Ethernet cables to lend to guests.
 - Breakfast – The continental breakfast is one of the last opportunities a hotel has to leave a favorable impression with guests. A hotel at this tier is expected to provide a hot breakfast. Scrambled eggs, sausage, biscuits and gravy, a waffle-maker, a variety of breads and cereals, and donuts, muffins, or sweet rolls are typical, along with juice and coffee. The Lodge has full kitchen facilities. This creates an opportunity to truly impress guests by adding one or two signature items. For example, it would be possible to make fresh blueberry muffins instead of packaged pastries, or make pancakes instead of setting out waffle-makers.
 - Guest surveys – Have a plan to follow up with guests. Collect guest emails and send a link to an online survey. Use the information to find out what guests liked as well as what needs to improve.
 - STR Global – enroll in the STR Global data program to report daily occupancy and rate information, and receive comparable data for the market, which can be used to benchmark performance.
- Restaurant – The primary need is to provide more consistent quality in the restaurant, along with a diversified menu that positions the business ahead of competitors.
- Menu – The menu offers little to set it apart from comparable restaurants in the area. New lunch and dinner menus need to include contemporary items along with lunch items that will draw people from the trails. Offer boxed lunches for people to take with them as they visit sites on the peninsula.
 - Local products – Fresh local food is one of the most popular trends in the restaurant business. There are multiple opportunities for the Lodge to engage in this practice and use it as a means to bring in customers. Highlighting, and expanding its herb garden is one approach. The Lodge can also source fruit, vegetable, meats, and other ingredients from local producers. Partnering with other local businesses is a third approach. For example, the Lodge might serve bread made by Jamsen’s or sauces and spreads made by The Jampot. Exclusive “Keweenaw Mountain Lodge” products could be developed and also sold packaged in the retail store.

- Room service – The restaurant can offer room service to Lodge guests. The room service menu might feature some family-style dining options.
- Marketing – The Lodge has not been effectively marketed, beginning with its failure to reinforce its brand. The advertising that has been done mostly follows an obsolete approach, with the majority of funds spent on print publications.
 - Web advertising – The Lodge needs to increase the proportion of its budget spent on web advertising through Google and Facebook. It also need to manage its free online advertising opportunities by claiming its Google Maps location, adding content, and taking advantage of listing sites to both provide content and respond to reviews. Examples include Expedia, Travelocity, Yelp, All Menus, YP, etc.
 - Email marketing – Guest emails should be obtained when the room is booked, and subsequently used to survey guests and send periodic emails to encourage return business.
 - Executive retreat center – The conference center is largely unused during the week. The best growth opportunity for its business is to market it as an executive retreat center, targeting businesses in Michigan, Wisconsin, Illinois, and Minnesota.
 - Bus tours – Bus tours are another opportunity to increase Lodge traffic, particularly during the week when occupancy is lower. Bus tours can be pursued collaboratively with other businesses that may offer scenic boat rides, mine tours, or other activities to participants.
- Supplemental revenue – Some opportunities may exist to provide additional revenue to the Lodge, with little additional cost.
 - Extended season – As a practical matter, the attempt to keep the Lodge open over winter was not successful. It may be more practical to consider limited opportunities to keep the hotel open for a longer period. This will need to be assessed after rooms are renovated and there is a track record of better occupancy and financial performance.
 - Ground leases – The Lodge property is only partially used. There are areas that might be leased to other businesses. For example, a zip line might be considered on the slope toward Copper Harbor. Similar kinds of outdoor-oriented businesses might be considered. These would not be owned by the Lodge, but the Lodge could lease ground to the business, and its customers would have the potential to stay at the Lodge or eat in the restaurant.
 - Wilderness skills / outdoor adventure instruction – There is a growing interest in learning wilderness skills, and many fledgling entrepreneurs, as well as established guides, are teaching these skills. The Lodge is an ideal location for this kind of instruction. These businesses can be encouraged to use, or even lease parts of the property. Participants may stay at the Lodge, and this might also be a target market for early and late season guests, at times when the Lodge might otherwise be closed.
 - Spa services – The Lodge can work with local providers to offer massage and other spa services. The Lodge can provide a location as well as book services for guests. The

providers can be independent contractors who pay a commission to the Lodge for services they provide (perhaps in the women's lounge?)

- Laundry services – The Lodge spends approximately \$40,000 annually on laundry services. This cost might be reduced considerably if it is feasible for the Lodge to install its own laundry equipment. This might also create the opportunity to provide laundry services for other hotels in Copper Harbor as a possible source of additional revenue.

Appendix C: Financial Projections

The following financial projections are presented as a realistic opinion of income, expenses, and profitability of the Keweenaw Mountain Lodge, assuming that there are no changes to fundamental conditions (such as changes to general economic conditions, visitation to the Keweenaw Peninsula, etc.) and the recommendations in this report are implemented as described.

2016 BUDGET AND PROJECTIONS – KEWEENAW MOUNTAIN LODGE

	Actual 2015	Budget 2016	2017	Projected 2018	2019	2020
Ordinary income/expense						
Income						
Lodging income ¹	\$474,882	\$492,000	\$528,000	\$564,000	\$600,000	\$636,000
Dining room income						
Banquet	\$84,829	\$82,000	\$86,100	\$90,405	\$94,925	\$99,672
Dining room ²	\$190,064	\$238,000	\$258,000	\$278,000	\$298,000	\$318,000
Total dining room income	\$274,893	\$320,000	\$344,100	\$368,405	\$392,925	\$417,672
Bar income ³	\$109,493	\$110,800	\$116,340	\$122,157	\$128,265	\$134,678
Golf income						
Golf fees ⁴	\$82,617	\$94,250	\$94,250	\$94,250	\$94,250	\$94,250
Golf sales	\$17,260	\$16,500	\$16,500	\$16,500	\$16,500	\$16,500
Retail store income ⁵	\$7,747	\$47,000	\$51,700	\$56,870	\$62,557	\$68,813
Total golf income	\$107,624	\$157,750	\$162,450	\$167,620	\$173,307	\$179,563
Allowances and discounts	(\$4,238)	\$0	\$0	\$0	\$0	\$0
Other misc. revenue ⁶	\$175	\$0	\$0	\$0	\$0	\$0
Interest income	\$379	\$548	\$500	\$500	\$500	\$500
Total income	\$963,208	\$1,081,098	\$1,151,390	\$1,222,682	\$1,294,997	\$1,368,412
Cost of goods sold						
Bar cost of sales	\$36,061	\$33,240	\$34,902	\$36,647	\$38,479	\$40,403
Dining cost of sales ⁷	\$125,924	\$102,400	\$120,435	\$128,942	\$137,524	\$146,185
Golf cost of sales	\$8,293	\$18,800	\$23,870	\$25,680	\$27,670	\$29,859
Total COGS	\$170,279	\$154,440	\$179,207	\$191,268	\$203,673	\$216,448
Gross Profit	\$792,930	\$926,658	\$972,183	\$1,031,414	\$1,091,324	\$1,151,964

Expenses						
Total employee costs ⁸	\$478,750	\$411,064	\$379,959	\$403,485	\$427,349	\$451,576
Total supplies	\$36,595	\$33,500	\$40,299	\$42,794	\$45,325	\$47,894
Total operating costs	\$234,027	\$237,599	\$230,278	\$244,536	\$258,999	\$273,682
Total marketing expense ⁹	\$10,465	\$18,138	\$28,785	\$30,567	\$32,375	\$34,210
Total management fees ¹⁰	\$0	\$0	\$57,570	\$61,134	\$64,750	\$68,421
Total expense	\$759,837	\$700,301	\$736,890	\$782,516	\$828,798	\$875,784
Net ordinary income	\$33,093	\$226,357	\$235,293	\$248,897	\$262,526	\$276,181
Other income/expense						
Total other income	\$2,933	\$0	\$0	\$0	\$0	\$0
Other expense						
Capital expenditures ¹¹	\$5,166	\$50,276	\$75,000	\$75,000	\$75,000	\$75,000
Total debt service ¹²	\$0	\$0	\$50,000	\$50,000	\$50,000	\$50,000
Total other expense	\$5,166	\$50,276	\$100,000	\$100,000	\$100,000	\$100,000
Net other income	(\$2,172)	(\$50,276)	(\$125,000)	(\$125,000)	(\$125,000)	(\$125,000)
Net income	\$70,710	\$176,081	\$110,293	\$123,897	\$137,526	\$151,181

1. Lodging income can be grown by at least \$36,000 per year simply through increased occupancy. Adjusting rates can further increase the income earned through the Lodge.
2. The projections contemplate an increase in dining income of \$20,000 per year through growth in market share. Revenue from the banquet hall is projected to increase by five percent each year through increased bookings for midweek business meetings.
3. Bar income is projected to grow at a conservative five percent per year. This slower rate of growth than projected for the dining room reflects a slowing of alcohol sales nationally.
4. As golf sales are slowing nationally, the projections are conservative in showing no change in sales.
5. The retail store will be a significant source of new income to the Lodge. Sales growth is projected at ten percent each year as the Lodge develops its merchandise mix and visitors become aware of the store.
6. Several possible sources of additional revenue are suggested in this report, such as ground leases and laundry services. These have not been factored into the financial projections.
7. Dining cost of sales has been adjusted upwards to 35 percent of gross sales, reflecting the higher cost of locally-sourced and fresh foods recommended as a positioning strategy for the restaurant.

8. Total employee costs have been further reduced to 33 percent of total income, which is still above the national average. In hiring a management firm, it may be possible to reduce the cost of a marketing coordinator by using the company's in-house staff to fill this role.
9. Marketing expenses have been increased to 2.5 percent of total income.
10. Management fees are estimated at five percent of total income. More typically, they would be structured at three to four percent, with a performance incentive. The USDA loan policies may not allow that approach.
11. The projections include annual expenditures of \$75,000 to renovate cabins and make other recommended improvements to the property.
12. The projections show \$50,000 in annual debt payments on the outstanding loans. The actual amount will need to be negotiated with the USDA. For purposes of comparison, Keweenaw County would need to increase the overall tax rate by 3.7 percent to raise \$50,000 in tax revenue which could be used to guarantee payment of this debt service amount.

Appendix D: Photos

The following photos were taken during the site visit in November of 2015.

Keweenaw Mountain Lodge



Entry sign on Highway 41



Stone wall on Highway 41



Front view of main lodge



Cabins along golf course



Path toward cabins from main lodge



Cabins along drive



Front view of cabin



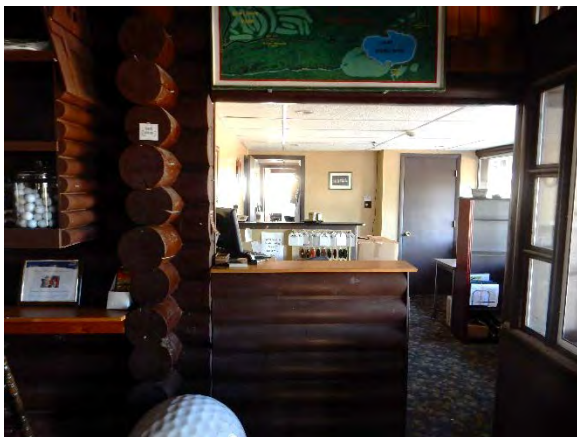
Eight-unit hotel building



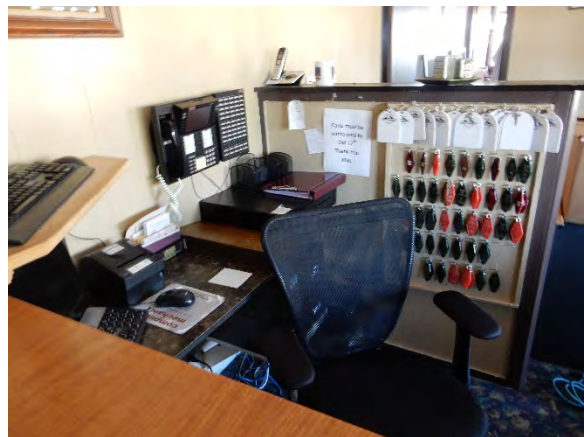
Golf pro shop / retail store



Golf course



Hotel registration and office in main lodge



Registration desk



Dining room



Bar and lounge



Women's lounge on lower level



Banquet/conference space



Unaltered cabin living area



Unaltered cabin living area



Unaltered cabin living area



Unaltered cabin with original furnishings



Unaltered cabin bedroom



Hot tub in "honeymoon cabin"



Altered two-unit cabin shared entry



Altered cabin fireplace



Altered cabin living area



Altered cabin bedroom



Motel room



Motel room sink

Competition

The following are examples of competitors in the market, within the northern part of the Keweenaw Peninsula.



Mt. Bohemia yurts and cabins



North Port Motel



King Copper Motel



Bella Vista Motel



The Pines Motel



Harbor Haus Restaurant

Area Views



Keweenaw Mountain Lodge from Brockway Mountain (taken with telephoto)



Lake Superior shoreline



Lake Superior shoreline



Lighthouse at Eagle Harbor



Downtown Houghton