

A Unique Solution: Royal Gorge Ski Resort + Rainbow Lodge

By Douglas Wilson

Douglas Wilson Companies (DWC) successfully completed two complex, large-scale receivership sales - Royal Gorge Cross Country Ski Resort and the historic Rainbow Lodge Resort - that had a major impact on the future of the Tahoe/Donner ski area.

DWC was engaged to take over and stabilize both properties when the property's lender, Armed Forces Bank, N.A., successor by merger to Bank Midwest, N.A., sought the appointment of a receiver in 2011 after the partnership of Kirk Syme and Mark and Todd Foster defaulted on a \$16.7 million loan. The partnership had proposed the development of a 950-unit recreation-centered conservation community, including trail-side cabins, condominiums, single family home sites, new ski areas and lodging in and around what is known as America's largest cross country ski resort.



Altogether, the proposed development site encompassed 3,000-plus acres of trail systems; the Summit Station day lodge; the surrounding watershed area of Serene Lakes; the area around Lake Van Norden, also called Summit Valley; 350 acres of pristine land in Johnson Canyon; and Rainbow Lodge, the historic 33-room bed-and-breakfast that is sited on nearly 115 acres of prime Sierra Nevada land, including half a mile of South Fork Yuba River frontage.

As receiver for the projects, DWC encountered immediate challenges. The first challenge once Wilson was named receiver was doing the basic analysis and

deciding whether to operate the resort and Rainbow Lodge, or shut them down. During the first year, Wilson operated the resort and lodge with the existing staff while DWC began tackling other challenges. "Out of the gate, we faced a deadline on whether to participate in the water district's environmental impact report that would renew the license to access future water rights," said Wilson.

It was not clear that Royal Gorge would be reimbursed for the \$400,000 fee, but they knew if the property wasn't included in the EIR it was unlikely there would be any water for future development. "In the end, the receivership estate simply didn't have \$400,000 to gamble on such a speculative prospect," he said.

Later, the receiver's engineering consultants confirmed Wilson's instinct. The consultants reviewed the development plans and found that, although the zoning would permit up to 900 units to be built, developing the land was not economically feasible.

"The reality was that there were not enough services available - water, sewer, fire or access - and there were political implications," Wilson said. Also on the services front, the local sewer district was forming an assessment district. Owners could opt in and preserve future rights to hookups. In that case, Wilson said, they opted in.

The next crucial decision DWC faced concerned how best to market and sell the properties. Initially, the Royal Gorge, Johnson Canyon and Rainbow Lodge properties were offered as a portfolio by Douglas Wilson Companies' brokerage division.

"But we couldn't find anyone who wanted it all," Wilson said. "People were interested in pieces or there were the conservation groups. It quickly became clear that we were looking for two buyers and decided to sell the Royal Gorge property apart from the lodge."

By marketing the properties separately, DWC was able

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to focus on the complex issues facing both properties independently - which accelerated the sale of Royal Gorge.

“The Royal Gorge assets were commingled with other assets owned by the defaulting entities; documents and contracts were in the wrong names, and even agreements for the trails were not clear,” Wilson said.

They had to segregate what he described as a “complex organizational chart,” figure out which entities held the liquor licenses that were essential to the day-to-day operations of the ski lodge, and take care of unpaid sales tax on other assets that were threatening the receivership license.

There were also nine separate license agreements with neighboring property owners regarding trail rights, most of which had not been documented and were out of date. “An accurate map of where the trails went didn’t even exist,” Wilson said.

It was so important that all of the material information was uncovered and cleared up so that all of the details were very transparent to all parties, including the court which had to approve the sale.

As they proceeded with the sale of Royal Gorge,

Wilson allayed concerns about Royal Gorge’s future by negotiating an agreement with nearby Sugar Bowl to carry on the ski operations. In December 2012, DWC’s brokerage division reached an agreement with the Truckee Donner Land Trust and the Trust for Public Land - working together as part of the Northern Sierra Partnership - to sell the property.

Over the next year, DWC continued to manage Rainbow Lodge in receivership - maintaining the liquor license for the bar; keeping up the property grounds and landscaping; and protecting the county and state permits for the natural mountain spring - while its brokerage division identified a suitable buyer.

In late 2013, the property was acquired by Craig Mitchell of Mitchell Partners, Inc., who restored the lodge which, as one of the few places to stay on the Sierra’s western slope, has historically been frequented by skiers and outdoor enthusiasts.

“History will reflect that the acquisition of Royal Gorge is one of the most significant in the region in terms of its size, location and history of the property,” said Wilson. “The acquisition combined with the purchase of Rainbow Lodge by a family operator is the best possible result for the community.”

