Great Bear: Investors keep hoping for a flurry of activity

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Lines and a Republican candidate for governor, said he invested in Great Bear in 1981 because he loves to ski. He stayed in for the same reason.

"There are some things I'm blind on," he said. "Skiing is one of them. Ranching is another. I didn't get into this to make a profit: So far I've been successful" — successful, he meant, in not making a profit.

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Great Bear Ski Valley opened in 1966 with a single rope tow to take skiers up the hill and no equipment to make snow. The 32½ acres of land are leased from the city for about $480 a year.

The ski hill was not the first in the Cactus Heights area off the old Brandon Road northeast of Sioux Falls. Dennis Finke, one of the first owners, said the Veterans of Foreign Wars operated a ski hill on the other side of the hill 30 or 40 years ago.

Finke bought into Great Bear about 1969. "It sounded like an adventure to me," he said. "It was a way to be creative at that time in my life. ... If you've got snow, you might as well make the best of it."

Finke, who was just graduated from Sioux Falls College, learned to ski after he bought into the ski hill. Once he spent his money, his enthusiasm grew.

Finke and co-owner Jim Oliver went to the Small Business Administration the first time in 1970 to ask the government to guarantee a loan so the Great Bear Ski Valley Corp. could buy skis and ski boots, install lights on the hill and build an A-frame lodge. The next year, they expanded the ski area and added more rope tows. In 1975, the Small Business Administration guaranteed another loan for snow-making equipment.

In 1979, the debt was consolidated into a $180,000 loan. The money also paid for additions to the ski lodge, kitchen equipment and operating expenses.

The next year, Sioux Falls had a snow drought. The SBA loaned Great Bear $47,000 in emergency disaster money to help pay its bills.

By 1981, Finke knew the hill needed more money, and Oliver wanted out.

Finke looked for investors willing to spend $250,000 to improve the hill.

Great Bear Ski Valley Inc. offered 80,000 shares of stock, worth $100,000. The shares were split 10 ways; nine of the 10 portions sold. Five skiers spent $10,000 for 10 percent of the stock in the hill; eight bought half portions. Finke, the 14th stockholder, retained 20 percent of the stock.

The skiers also loaned $150,000 to the hill. Five spent $15,000 each; the other eight each gave $7,500.

A year later, the investors split the cost of putting another $25,000 into the hill.

They also asked the Sioux Falls Development Foundation for a $145,000 loan to help pay for a $200,000 chairlift. The stockholders personally guaranteed the five-year, interest free loan.

Kent Morstad, secretary-treasurer of Miller Funeral Home, invested.

"Our perception was that the thing was going to end up being closed if someone didn't do something with it," he said. "Somebody had to bail them out."

The investors wanted to make sure the ski hill stayed open, he said.

Why?

"Why is it important to have a bowling alley in Sioux Falls?" Morstad asked. "Why is it important to have a swimming pool? There are a lot of people in Sioux Falls interested in skiing."

Three of Morstad's children learned to ski at Great Bear; so did he. Now, they ski mountains in Colorado.

"I never got into it with the idea I would make any money," Morstad said.

Kevin Kirby, Western Surety treasurer, also invested. Those who put their money down like to ski; they wanted to make sure Great Bear stayed open, he said.

"I use it. My family uses it. It's just nice to have a facility like that in Sioux Falls," he said. "There are certainly better investments to be made."

Although the investors hoped to recover some of the money they put into Great Bear, a loan officer from the Small Business Administration predicted they would not.

Papers filed in 1981 show that the loan officer encouraged the government to liquidate the loan instead of allowing the investors to buy into the corporation. A ski hill will never succeed in eastern South Dakota, he wrote. The officer's name was not included in papers the agency released.

"It is the loan officer's belief that during the last 15 or 16 years there has been only one year that has been conducive to skiing in the very small hills that we have in the eastern part of the state," he wrote. "The weather is either too severely cold in the wintertime or it is too warm and the season is simply not long enough to provide for this type of hill skiing." If the SBA modified the loan, it would only allow the stockholders to invest into a losing business that might have no future whatsoever, the loan officer concluded.

Other SBA officials did not agree, so they modified the loan agreement with Great Bear Ski Valley Inc. Oliver's name — and the collateral he offered — came off the loan agreement. The SBA gambled that new money and the new chairlift would help the hill earn enough to make loan payments.

The government welcomed the investors' offer to put new money into the hill, Chester Leedom, SBA district director, said. "It was a tremendous shot in the arm."

But even new money could not guarantee snow.

"We know now that out of every three years you're going to have one good year, one bad year and one mediocre year," lawyer Taylor said. The investors also mistakenly believed that the chairlift would dramatically increase business at the ski hill.

"It didn't work," Taylor said. The stockholders' money went "straight down the tube." The first and second years, revenues did not cover the bills. The third year, the hill made money — but not much. During the fourth year, the 1984-85 ski season, South Dakota's warm weekends melted needed snow.

By last summer, most of the investors wanted out.

Richard Sweetman, a skier and president of Sweetman Construction, was one of them. "It takes you three or four years to figure out it's not Colorado," he said. In the good years, the investors took sort of a beating, he said. In the bad years, they took a horrible beating.

Morstad said, "It was fun when we started it, and everybody was real pumped up about the whole thing." By summer 1985, the enthusiasm began to wane. The hill lost money. Meetings lengthened. No one agreed on what to do next. "It just wasn't fun any more."

Great Bear never earned enough in a year to pay its bills and repay the loans, Taylor said. Great Bear never got close to making enough to cover the more than $30,000 a year it owed on the Small Business Administration debt.

"Everybody looked to me and said, 'What are we going to do?'" Taylor said. The problem was debt service. He offered two alternatives: walk away or eliminate the debt.

The stockholders were not willing to put more money into Great Bear, he said. So Taylor suggested bankruptcy or a compromise with the SBA.

Hansen led the group that decided to ask the government for a compromise. They offered the SBA $100,000 to settle the $227,000 in loans.

First the SBA district claims review committee in Sioux Falls, then the regional compromise review committee in Denver approved the plan.

"In light of the appraisals, it appears that these offers are more than fair for the collateral we have securing our loan," an SBA report from December 1985 says. "It is felt that any other means of trying to collect on this inventory would result in much less recovery."

The SBA's Leedom said the move was not unusual. "Unfortunately, lending is not a science," he said. "Small business is hazardous at best. The failure rate in small business is very high."

Great Bear did not make many loan payments from 1979 to 1985, SBA papers show. The company asked for deferments in 1980, 1981, 1982 and 1983 and was behind in payments when liquidation began in 1985.

Leedom said he was reluctant to foreclose on Great Bear because it was a recreational area for the city of Sioux Falls with several people trying to make it work. Besides, the SBA knew it would lose money on the loans if it closed Great Bear, he said. The collateral — equipment and buildings at the hill and a second mortgage on two of Finke's duplexes — was not enough to repay the loan.

So the SBA stuck with Great Bear. "Any payment we got was a payment to the good," Leedom said.

Although he could not cite specific examples, Leedom said the agency has given farmers similar breaks, deferring loan payments for three or four years.

As of March 31, the agency has guaranteed 1,198 business loans worth $76.3 million. Those loans are similar to the $180,000 Great Bear loan. About 91 percent of those loans are current; 3.6 percent, or 43, are in liquidation; 5.4 percent, or 65, are behind in their payments, Leedom said.

The agency also has made 1,998 disaster loans worth $81.3 million. Those loans are similar to the $47,000 Great Bear loan. Of those, 1,467, or about 73.4 percent, are current in payments; about 1.5 percent, or 29, have asked for deferments; about 17.4 percent, or 348, are behind in payments; and 7.7 percent, or 154, are in liquidation.

When the SBA liquidates a loan, it expects to recover an amount equal to the value of the collateral, Leedom said. He had no specific figures, but estimated that the settlements usually represents about half of the loan's value. In the case of Great Bear, the $100,000 was worth more than the collateral, he said.

The government took the money and closed the Great Bear file.

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Now, Great Bear relies on private money.

As he looked to the future, Hansen said Great Bear is in good position to succeed in the coming years.

New marketing could bring more skiers to Great Bear, he said. Five stockholders — instead of 14 — should be able to more easily make decisions about how to run the hill.

With less debt, the hill will be able to pay its bills more easily, Hansen said. He expected to refinance the remaining $115,000 debt to the Development Corporation.

The Development Corporation must collect its money because it owes the $145,000 to the city, Stenseth said. The money represents the agency's share of the cost of the Benson Road bridge. The money is due in September 1987.

When Great Bear stops losing money, Hansen would like to improve the lodge by adding a fireplace and lounge to attract older skiers.

But Hansen said what he would like to do most is break even in the next 10 years.

Now, he and the others involved can only wait for nature to deal the next hand.