

THE “YELLOW SNOW” DILEMMA A CAPITAL BUDGETING CASE

*Brian A. Maris, College of Business Administration, Northern Arizona University, Box 15066,
Flagstaff, AZ 86011, 928-523-7398, brian.maris@nau.edu*

*Larry Watkins, College of Business Administration, Northern Arizona University, Box 15066,
Flagstaff, AZ 86011, 928-523-7368, larry.watkins@nau.edu*

ABSTRACT

Snowbowl Ski Area, located in northern Arizona, experienced several years of inadequate snowfall resulting in both operating losses and negative cash flows. The CEO must decide whether to commit \$750,000 for an environmental impact study related to a proposed snow making project that uses reclaimed wastewater. The estimated cost of the project is an additional twenty million dollars. Given that Snowbowl is located on U.S. Forest Service land, Forest Service approval is required. Native Americans' perception that this area is sacred complicates this decision process as litigation is considered likely even if approval is granted. Estimated skier days, revenue levels, capital costs and interest rates are provided to facilitate the decision modeling process.