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IMPACT OF POTENTIAL TAX INCREASES ON MAMMOTH LAKES ECONOMY

Town of Mammoth Lakes, CA

***PRELIMINARY ANALYSIS – SUBJECT TO CHANGE
INTENDED FOR SETTLEMENT DISCUSSIONS ONLY***



THE STATEMENT OF LIMITATIONS OF THIS REPORT AND ITS ACCESS/DISTRIBUTION IS AN INTEGRAL PART OF FTI'S ANALYSIS, AND SHOULD BE READ IN CONJUNCTION THEREWITH.

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Statement of Limitations

The opinions and data contained in this report and related exhibits (the “Report”) have been prepared based upon interviews, documents and other data provided to FTI Capital Advisors (“FTI”) from the management and staff of The Town of Mammoth Lakes (“Mammoth Lakes”), their staff and advisors, or from public sources FTI deemed to be reliable. FTI further relied on the assurance of management, staff and advisors of Mammoth Lakes that they were unaware of any facts that would make the information provided to FTI by them incomplete or misleading.

FTI has not subjected the financial information contained herein to an audit in accordance with generally accepted auditing or attestation standards or the Statement on Standards for Prospective Financial Information issued by the American Institute of Certified Public Accountants (“AICPA”). Further, the work involved did not include a detailed review of any financial statements or reports and cannot be expected to identify errors, irregularities or illegal acts, including fraud or defalcations that may exist. Accordingly, FTI cannot express an opinion or any other form of assurance on, and assumes no responsibility for, the accuracy or correctness of the historical information or the completeness and achievability of the information and assessments upon which financial or other information provided by Mammoth Lakes is based.

FTI and Mammoth Lakes have not subjected the information contained herein to the attestation standards or the Statement on Standards for Prospective Financial Information issued by the AICPA or the Governmental Accounting Standards Board (“GASB”). The Report remains subject to further refinement and adjustment at the discretion of FTI and the Town of Mammoth Lakes.

Scope of Analysis

The purpose of this report is to present an analysis of Mammoth Lakes’ various sources of tax and other revenues and to provide an assessment of the feasibility of increasing one or more controllable taxes or fees to generate additional revenues that could be available to service the debts of Mammoth Lakes, including the litigation judgment of MLLA.

In conducting our analysis we: interviewed Mammoth Lakes community and business leaders; reviewed documents and data specific to Mammoth Lakes local economy, demographics, geography, climate, transportation, real estate market, business and industry, government services, and taxes and fees; and we conducted research regarding local and national business and economic trends. We also conducted research on other ski resort communities and their economic attributes.

Background

Mammoth Lakes, with a population of approximately 7,500, is a ski resort community. According to a report by its Destination Resort Steering Committee, “Mammoth’s economy is almost wholly dependent on tourism. Virtually every aspect of the community is directly or indirectly linked to tourism...”¹ Like many resort communities – but perhaps even more so, given its geographic isolation – a large proportion of the workforce is employed in relatively low-paying service sector jobs.

Based on the results of a 2011 local household survey conducted by RRC Associates, Inc. (442 responses representing 750 employees), roughly 45 percent of employed residents work in the “recreation” sector (ski area, predominantly), bars and restaurants, retail establishments, and hotels and lodges.² Further, another twelve percent work in construction, a sector with higher wages but poor prospects, given the decline in construction activity post-2006 and the likelihood of continuing depressed performance (see below). In part as a consequence of the foregoing, roughly 40 percent of the Town’s households are classified as low-income, earning less than 80 percent of area median income (AMI), including 53 percent of renters and 24 percent of owners.³ And the average wage in Mono County (of which Mammoth Lakes is a part) in 2010 was \$33,124 – 38 percent below the California average of \$53,196.⁴

Also reflecting the lack of diversity in the local economy, as well as other factors discussed below, Mammoth Lakes’ municipal revenue has been declining since 2008,⁵ and by any number of key measures the local economy has been in decline. The causes of that decline include, but are likely not limited to, the national economic downturn and chronic deficiencies in competitiveness *vis-à-vis* other resort areas.

Over the past decade (2002 – 2011) the Town’s total revenue from all sources ranged from \$16 million in 2002 to \$33 million in 2006, declining to \$26 million in 2010 and 2011.⁶ Taxes and assessments comprise the majority of the Town’s revenues and within this category, the primary sources are the transient occupancy tax (“TOT” – a tax imposed on rental properties and hotel room rentals), property tax, and sales tax. Over the past five fiscal years ending June 30, 2007 – 2012, the Town’s total tax revenue

¹ Town of Mammoth Lakes, “Destination Resort Community and Economic Development Strategy.” adopted April 15, 2009, page 2.

² RRC Associates, Inc., *Mammoth Lakes Housing Needs Assessment 2011: Final Report*, September 28, 2011, pages 7 and 39.

³ RRC Associates, Inc., *op. cit.*, page 7.

⁴ RRC Associates, Inc., *op. cit.*, page 8.

⁵ Source: Town of Mammoth Lakes, audit reports for the years ended June 30, 2006 through June 30, 2010.

⁶ Revenue data summarized from the Town of Mammoth Lakes, California Audited Financial Statements for the fiscal years ending June 30, 2002 – 2011.

averaged \$19 million. The TOT accounts for approximately 55 percent of total tax revenues, property taxes for approximately 26 percent, sales taxes for approximately 13 percent, and other taxes, the remaining approximate six percent. The table below presents the composition of the Town's tax revenues for the fiscal years 2007 – 2011.

Tax	2007	2008	2009	2010	2011	Average
Transient Occupancy Taxes	\$ 9,665,945	\$10,653,887	\$ 9,692,479	\$10,499,798	\$11,195,707	\$10,341,563
Property Taxes	\$ 4,376,174	\$ 5,111,714	\$ 5,465,746	\$ 5,248,082	\$ 4,906,073	\$ 5,021,558
Sales Taxes	\$ 2,492,706	\$ 2,141,847	\$ 2,413,026	\$ 2,567,983	\$ 2,725,216	\$ 2,468,156
Other Taxes	\$ 1,221,832	\$ 1,312,321	\$ 1,190,023	\$ 1,188,645	\$ 1,227,910	\$ 1,228,146
Total	\$17,756,657	\$19,219,769	\$18,761,274	\$19,504,508	\$20,054,906	\$19,059,423

Transient Occupancy Taxes	54.4%	55.4%	51.7%	53.8%	55.8%	54.3%
Property Taxes	24.6%	26.6%	29.1%	26.9%	24.5%	26.3%
Sales Taxes	14.0%	11.1%	12.9%	13.2%	13.6%	12.9%
Other Taxes	6.9%	6.8%	6.3%	6.1%	6.1%	6.4%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

The Broader Economic Picture and Its Implications

As indicated by several key measures discussed below, on a long-term basis, the economy of Mammoth Lakes has been stagnant, and on a near-term basis in decline; nor is recovery expected in the foreseeable future. Imposition of added taxes not serving to finance improvements in municipal services or investment in growth could only exacerbate these problems and make recovery that much more unlikely.

Even a tax whose proceeds are spent in the economy taxed (not a reasonable assumption in this case) would reduce that economy's growth. As noted, for example, by Christina and David Romer, with respect to taxes imposed at the national level, "[T]ax changes have very large effects on output [a tax equaling one percent of GDP producing a reduction in GDP of over two percent]... investment falls sharply... [and] the output effects of tax changes are [also] highly persistent."⁷

Skier Visits and Related Indicia

Mammoth Mountain skier visits and revenue (from all sources) declined substantially in 2011/12 season; prior to that they had been essentially flat since 2007, and substantially less than in 2005 and 2006.⁸

⁷ Christina D. Romer and David H. Romer, "The Macroeconomic Effects of Tax Changes: Estimates Based on A New Measure of Fiscal Shocks," University of California at Berkley, March 2007, pages 40-41.

⁸ Source: Mammoth Mountain management.

5 Months Ended March:	2007	2008	2009	2010	2011	2012
Skier Visits						
Mammoth Mtn. Ski Area	883,648	946,538	889,109	972,707	961,961	728,978
June Mtn. Ski Area	9,156	60,613	49,946	61,515	58,973	23,954
Total Skier Visits:	892,804	1,007,151	939,055	1,034,222	1,020,934	752,932
Revenue by Business Segment						
Ski Area Ops	\$ 47,359,872	\$ 53,291,435	\$ 49,927,400	\$ 52,300,164	\$ 55,104,700	\$ 43,951,057
Food & Beverage	9,509,822	11,058,178	10,299,615	12,022,170	12,940,401	10,644,171
Hotels & Property Mgmt	11,139,592	12,141,506	9,103,400	9,722,764	10,922,137	8,811,519
Sports School	7,049,900	7,842,915	6,535,945	7,177,484	7,771,023	6,191,115
Retail	5,183,808	5,504,543	3,903,427	4,277,565	4,856,363	3,882,073
Rental/ Demo/ Repair	5,156,964	5,967,571	5,203,587	5,660,612	6,316,459	5,063,075
Activities	2,680,243	3,110,890	3,158,134	3,530,268	3,876,859	3,801,282
Sierra Star Golf	39,665	34,080	32,576	1,016	31,413	43,116
Corporate	1,255,496	811,303	743,274	942,750	945,808	906,962
Total Revenue:	\$ 89,375,362	\$ 99,762,421	\$ 88,907,358	\$ 95,634,793	\$ 102,765,163	\$ 83,294,370

Source: Mark Clausen, Mammoth Mountain

Hotel and Rental Unit Occupancy

Another factor significantly directly impacting Mammoth Lakes' economic health and tax revenue is the rate of occupancy of its hotels and rental properties. The table below presents the Town's average annual occupancy rates for the years 2001 – 2010.

Mammoth Lakes	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Annual Average Occupancy Rates	37%	38%	38%	40%	38%	39%	33%	33%	30%	34%

Economic & Planning Systems, Inc., "Mammoth Lakes Economic Forecast and Revitalization Strategies". October 6, 2011, page 13.

Since 2001 at least, occupancy rates in local lodging facilities have been consistently low relative to competing ski resort communities. By comparison to Mammoth Lakes' rate, which averages approximately 36 percent, competing destination ski resorts in Colorado and Utah (Aspen, Beaver Creek, Park City, Snowmass, and Vail) have average annual occupancy ranging from 41 percent for Park City to 55 percent for Aspen.⁹

The following table provides a comparison of occupancy rates for Mammoth Lakes and competing destination resort communities. As shown, Mammoth Lakes is lagging behind its Colorado ski resort competitors in attracting tourists in all three of the non-ski seasons, in part because the Colorado resorts

⁹ Economic & Planning Systems, Inc., "Mammoth Lakes Economic Forecast and Revitalization Strategies," October 6, 2011, page 13.

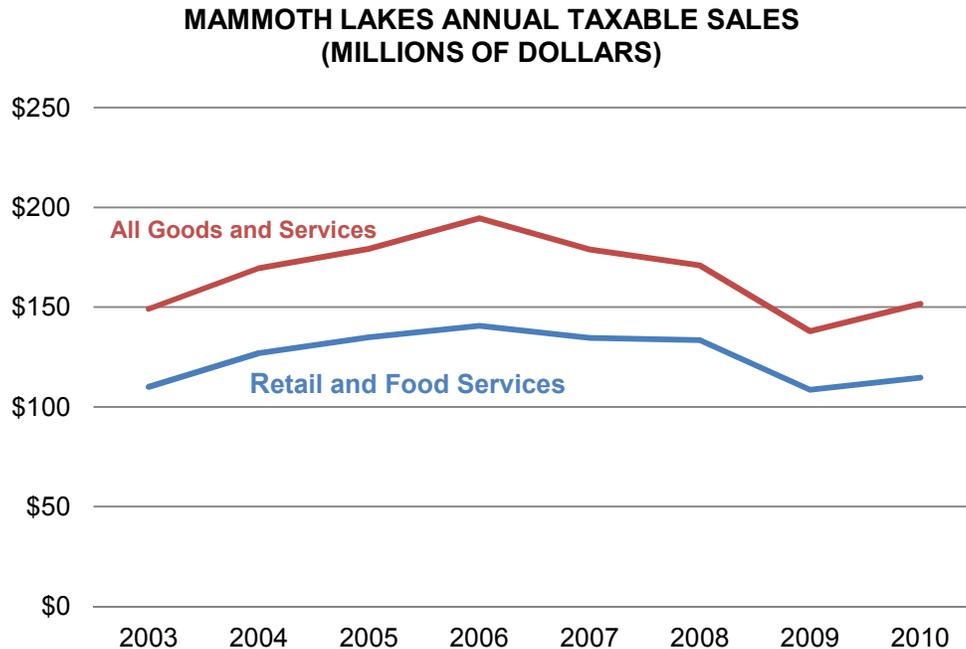
offer a wider variety of outdoor activities, cultural and performing arts. Thus, Mammoth Lakes is lagging substantially behind its competitors in the critical summer vacation season.

Resort	Fall	Winter	Spring	Summer	Annual
	Sept-Nov	Dec-Mar	Apr-Jun	Jul-Aug	
Mammoth	23%	48%	28%	45%	36%
Aspen	37%	75%	34%	75%	55%
Beaver Creek	27%	62%	29%	50%	43%
Park City	27%	60%	27%	48%	41%
Snowmass	---	86%	---	---	45%
Vail	28%	68%	33%	51%	46%

Economic & Planning Systems, Inc., "Mammoth Lakes Economic Forecast and Revitalization Strategies". October 6, 2011, page 14.

Taxable Sales of Businesses

As the Chart below illustrates, from 2006 through 2009, taxable sales of Mammoth Lakes businesses steadily decreased; and while showing a ten percent recovery in 2010, were still only marginally above their level in 2004 (\$151.7 million versus \$149.1 – in constant dollars, a significant decrease).¹⁰



Source: California State Board of Equalization.

¹⁰ Source: California State Board of Equalization.

Further, the performance of Mammoth Lakes' business establishments in terms of sales per square foot of floor space falls short of industry standards and peer resorts in the case of both shoppers' goods and food and drink categories. This likely reflects both the relative shortness of visitor stays in the community and the low occupancy rates noted above. (Although the data indicates that Mammoth Lakes convenience goods sales per square foot exceed industry standards, this reflects an unusual degree of dependence upon a single establishment, Von's Supermarket.)

Retail Sales (per sq.ft.)	Mammoth Lakes	Industry Standard	Peer Resorts (Aspen/Vail)	Mammoth Performance in Comparison
Convenience Goods	534	\$400-\$600	N/A	Strong
Shoppers Goods	128	\$250-\$400	600	Weak
Eating and Drinking	177	\$250-\$350	N/A	Weak

Source: Economic & Planning Systems, Inc., "Mammoth Lakes Economic Forecast and Revitalization Strategies". October 6, 2011, page 19.

Real Estate and Housing

Another indication of Mammoth Lakes' economic malaise is its declining volume of new residential and commercial construction. Data on the number, value, and types of building permits issued from 2001 through 2010 indicate a dramatic decline in both the number of building permits issued in recent years and in the value of the projects represented by those permits. Over the full period, the annual number of permits for new single family residences peaked at fifty-two in 2005, declining to five in both 2008 and 2009, and only eight in 2010. As shown in the table below, for each of the most recent three years, 2008-2010, there were no building permits issued for multifamily or commercial/industrial buildings.¹¹

Permits Issue Year	New Single-Family Residence	New Multi-Family Non-Transient	New Multi-Family Transient	New Mixed Use	New Commercial / Industrial
2001	40	5	0	2	8
2002	38	0	0	6	6
2003	36	1	19	7	7
2004	32	7	47	0	3
2005	52	16	32	1	15
2006	34	10	11	0	4
2007	15	6	6	0	2
2008	5	0	0	0	0
2009	5	0	0	0	0
2010	8	0	0	0	3
Total	265	45	115	16	48

¹¹ And in 2007, only four: one for a new propane facility; another for a stage for the Mammoth Festival Concert; another for a ski bridge in the Village; and the last for an interim cross-country skiing center. Source: Town of Mammoth Lakes.

In a 2011 report by Economic & Planning Systems, Inc. (EPS) reviewing Mammoth Lakes' revitalization strategies, a key finding was that, "Existing conditions present a challenge to becoming a competitive destination resort community."¹² The report noted that, "The town of Mammoth Lakes is largely built-out – there are few remaining vacant parcels that are not subject to pending development approvals,"¹³ and that it "does not expect a recovery in building permits or real estate development revenue in the foreseeable future."¹⁴

Considering both the physical constraints on further development and the deflation in local property values, that is no great surprise. From their peak in 2007 to early 2012, the median price of single-family homes in Mammoth Lakes has fallen steadily from \$900,000 to \$541,000, a decline of 40 percent. From their peak in 2006, the median price of condominiums has fallen from \$560,000 to \$270,000, a decline of 52 percent.¹⁵ In contrast, from their peak in the third quarter of 2006 to the fourth quarter of 2011, home values for the State of California overall declined by 37 percent.¹⁶ Experience and expectations with respect to property tax revenue and homeowner wealth in Mammoth Lakes are correspondingly adverse.

Equally telling, both as to property values and the overall financial situation of local homeowners (actual and erstwhile), is the increasing frequency of distressed home sales, as measured by the proportion of total sales accounted for by REO (bank-owned) sales, short sales, and probate sales. According to Trademark Properties, over the last five quarters that proportion has risen steadily from 18.2 percent in the first quarter of 2011 to 52.4 percent in the first quarter of this year.¹⁷

Inherent Obstacles to Revitalization

Even at present, Mammoth Lakes and the ski resort lack the amenities expected by destination travelers, relative to competing Western mountain communities.¹⁸ Further, the Mammoth Lakes' economy is highly dependent on snowpack levels, which research indicates have been declining due to climate change and

¹² Economic & Planning Systems, Inc., op. cit., page 3.

¹³ Ibid.

¹⁴ Ibid.

¹⁵ Trademark Properties, "Market Report: Overview of Mammoth Lakes Real Estate Market," April 1, 2012, pages 4 and 7.

¹⁶ Source: Federal Housing Finance Agency, at <http://www.fhfa.gov/Default.aspx?Page=87>.

¹⁷ Trademark Properties, op. cit., page 5.

¹⁸ "Much of the existing lodging properties and strip commercial shopping centers are older and do not provide the services or attractions demanded by the destination visitor. Mammoth Lakes also lacks the historic center that defines other Western mountain resort communities, **and is considered by many in the industry as having one of the poorest 'base facilities' of any of the competing major skiing resorts in North America, in terms of the quality of lodging, dining, entertainment and services.**" Economic & Planning Systems, Inc., op. cit., page 3. (Emphasis added.)

are apt to continue to do so, shortening the ski season and introducing a significant long-term risk to private investment in the community.¹⁹

Mammoth Lakes itself acknowledges the foregoing factors, as well as several others adversely affecting its growth prospects.²⁰ One of these additional limiting factors is greatly limited service to its airport, as indicated in the table below.

Airport	Airline	Winter		Summer	
		# of Flights	Days	# of Flights	Days
Los Angeles (LAX)	Alaska Air	4	Sun-Sat	1	Sun-Sat
Orange County (SNA)	United Airlines	2	Fri-Mon	0	Sun-Sat
San Diego (SAN)	United Airlines	2	Sun-Sat	0	Sun-Sat
San Francisco (SFO)	United Airlines	2	Sun-Sat	0	Sun-Sat
San Francisco (SFO)	United Airlines	2	Fri-Mon	0	Sun-Sat
San Jose (SJC)	Alaska Air	2	Thu-Sun	0	Sun-Sat

Although Mammoth Lakes obtained the necessary permits and approvals and constructed a temporary holding facility (i.e., sprung structure) to accommodate airplane passengers in a sheltered location until such time as a permanent terminal facility is constructed, the current terminal facility can only

¹⁹ See, for example, Alan Hamlet, “Effects of Temperature and Precipitation Variability on Snowpack Trends in the Western United States,” *Joint Institute for the Study of the Atmosphere and Ocean Contribution Number 1066 (2005)*.

²⁰ These include the following (source: Town of Mammoth Lakes, “Destination Resort Community and Economic Development Strategy,” April 15, 2009, page 3):

- a. “Environmental Factors: 1980 Long Valley Earthquake, 1980-90’s Volcanism, 1992 Rainbow Fire, 1991 & 2007 [as well 2011] Low Snowfall, New Zealand Mud Snail & Quagga Mussels, Global Climate Change and Extreme Sierra Weather Patterns.
- b. “Economic Factors: ...Strong Resort Industry Competition, Aging Baby Boomers, National/Global Economic Downturn, Escalating and Fluctuating Fuel Costs.
- c. “Local Factors: Weak Spring and Fall Visitation.
- d. “Competition: alternative recreational choices and alternative resorts to choose from. Mammoth’s businesses experience feast or famine.
- e. “Low average annual lodging occupancies.
- f. “Shoulder season visitors find closed restaurants, shops, services and limited recreation choices.
- g. “Customer service standards suffer.
- h. “Employees work too much or not at all.
- i. “High employee burnout.
- j. “Difficult to attract and retain employees and achieve a sustainable employment base due to the cost of living, high housing costs, and a lack of resident amenities. Economic diversification is difficult.
- k. “We are geographically isolated, access is limited.
- l. “Marketing and distribution networks are limited.
- m. “Materials, shipping, and construction and development costs are high.
- n. “Local costs of doing business are relatively higher than other communities.
- o. “The Town is very limited in size and surrounded by public lands.”

accommodate one flight (approximately 80 people) at one time, which limits flight schedules and is a problem when flights are delayed or planes are unable to take off due to weather.²¹

By comparison, competing destination ski resorts in Colorado and Utah have substantially more flights. There are hundreds of direct flights to the Aspen, Eagle/Vail, Denver and Salt Lake City airports daily. Eagle/Vail has non-stop service from twelve cities on six major carriers. Aspen Airport has approximately fifteen daily flights to/from Denver, in addition to approximately ten non-stop flights from Los Angeles, San Francisco, Chicago, and Houston. Additionally, Denver airport has more than 400 flights from over 80 cities on fourteen airlines, plus daily, nonstop service from London and Frankfurt.

Insufficient Resources to Contribute to Revitalization

To maintain their competitive position, ski resort communities must invest in continuous innovation and improvement;²² however, Mammoth Lakes' local economy²² is not generating the funds required either to sustain the ski resort's competitiveness in the long-term, or a level of government services consistent with long-term economic growth generally. Combined with persistently poor economic conditions nationally, the factors cited earlier, among others, also limit the likelihood of significant outside investment in the community.

As noted, Mammoth Lakes and the ski resort lack the amenities expected by destination travelers, relative to competing resort communities. However, "[N]ew development, including residential, lodging, and resort and community-serving retail and service uses, will require substantial redevelopment of existing built properties in coming years."²³ The funds required for such upgrading are not in the offing, nor is there any immediate prospect that they will be.

This adverse circumstance is highlighted by the disconnect between EPS's "Status Quo" town "development" scenario, the precipitous decline in real estate values over the last several years, and the steadily rising percentage of distressed home sales referenced above. As noted by EPS, under its "Status Quo" scenario, "[N]ew development would generally be limited to build-out of a proportion of existing approved projects and would reflect no other development or improvement of existing land use conditions... [as well as] a lack of regulatory and financial incentives to attract investors and to compete

²¹ Town of Mammoth Lakes Annual Planning Report, January 1 - December 31, 2011, page 9.

²² For example, see Vail Resorts 2010 *Form 10-K*, pages 4-5: "[A] particular ski area's growth is also largely dependent on either attracting skiers away from other resorts, generating more revenue per skier visit and/or generating more visits from each skier. Better capitalized ski resorts, including all six of our mountain resorts, are expanding their offerings as well as enhancing the quality and experience by adding new high speed chairlifts, gondolas, terrain parks, state of the art grooming machines, expanded terrain, on-mountain dining venues as well as amenities at the base areas of the resorts, all of which are aimed at increasing guest visitation and revenue per skier visit."

²³ *Ibid.*

more effectively for nationally and internationally based destination visitors.”²⁴ Yet, according to EPS, even this scenario requires the addition of 788 new units of residential and lodging construction, net of demolitions for redevelopment.²⁵ In view of the current real estate climate, the likelihood that current prices are in fact *equilibrium* prices, the absence of any reason to believe that demand for housing will increase, and the prospect of continuing attenuated economic growth at the national level,²⁶ it is difficult to see how even that minimum “development” requirement will be met in the foreseeable future.

Potential Added Sources of Revenue

Property-Based Parcel Tax

Mono County residents are already burdened by an average per capita property tax rate that is the fourth-highest among all counties in California.²⁷ Increases in Mammoth Lakes’ property tax payment delinquencies over the last several years²⁸ evidence residents’ growing inability to shoulder the existing burden, much less a heavier one.

The availability of affordable housing for the citizens of Mammoth Lakes is a key factor in attracting and retaining a permanent population that provides a workforce to support Mammoth Lakes’ tourism, its economic foundation. Property taxes of course directly impact the cost of housing.

A comprehensive study of the area’s housing needs was commissioned by Mammoth Lakes Housing, Inc., a non-profit organization charged with developing adequate workforce housing for a viable and sustainable community.²⁹ Beyond those previously cited, some of the report’s relevant findings include:

1. Nearly 40 percent of households surveyed reported that their incomes have decreased since 2007/08, and only 15% reported an increase.³⁰
2. The housing stock in Mammoth Lakes is relatively old. Over one-half of homes were built prior to 1980 and are at least 30 years old. Homes of this age typically require repair, reinvestment, and sometimes more significant rehabilitation to ensure quality living conditions are maintained. Older units also tend to be less

²⁴ Economic & Planning Systems, Inc., op. cit., page 25.

²⁵ Ibid.

²⁶ Note that, notwithstanding our exit from recession, real GDP grew by only 1.7 percent in 2011, as compared to an average of 3.2 percent (arithmetic) over the sixteen years preceding the recession. Sources: United States Department of Commerce, Bureau of Economic Analysis at <http://www.bea.gov/national/> and the *Economic Report of the President*, February 2012, Appendix B, page 320.

²⁷ Source: League of California Cities, *California Local Government Finance Almanac*.

²⁸ See Town of Mammoth Lakes Annual Financial Report, June 30, 2010, page 8.

²⁹ RRC Associates, Inc., op. cit., page 1.

³⁰ RRC Associates, Inc., op. cit., page 7.

energy efficient than newer construction, an especially critical consideration here.³¹

3. For the three-fourths of homeowners with mortgage payments, such payments average about \$1,900 per month. Utilities average almost \$400 per month and homeowner's association fees another \$350.³²
4. Approximately 250 households are at risk of losing their homes due to delinquent rent or mortgage payments. Nearly 15%, or 220, indicated that their debt exceeds the value of their homes.³³

Transient Occupancy Tax (TOT) Increase

The impact of a possible increase in the TOT must be considered against the backdrop already described above in "Inherent Obstacles to Revitalization," but worth repeating: "Much of [Mammoth Lakes] existing lodging properties and strip commercial shopping centers are older and do not provide the services or attractions demanded by the destination visitor. Mammoth Lakes also lacks the historic center that defines other Western mountain resort communities, **and is considered by many in the industry as having one of the poorest 'base facilities' of any of the competing major skiing resorts in North America, in terms of the quality of lodging, dining, entertainment and services.**" (Emphasis added.) Inferior goods and services do not benefit from being made more expensive.

Notably, at 13 percent, Mammoth Lakes' current transient occupancy tax rate is exceeded by only eight out of 431 California cities levying this tax.³⁴

Potential Ski Lift Ticket Tax

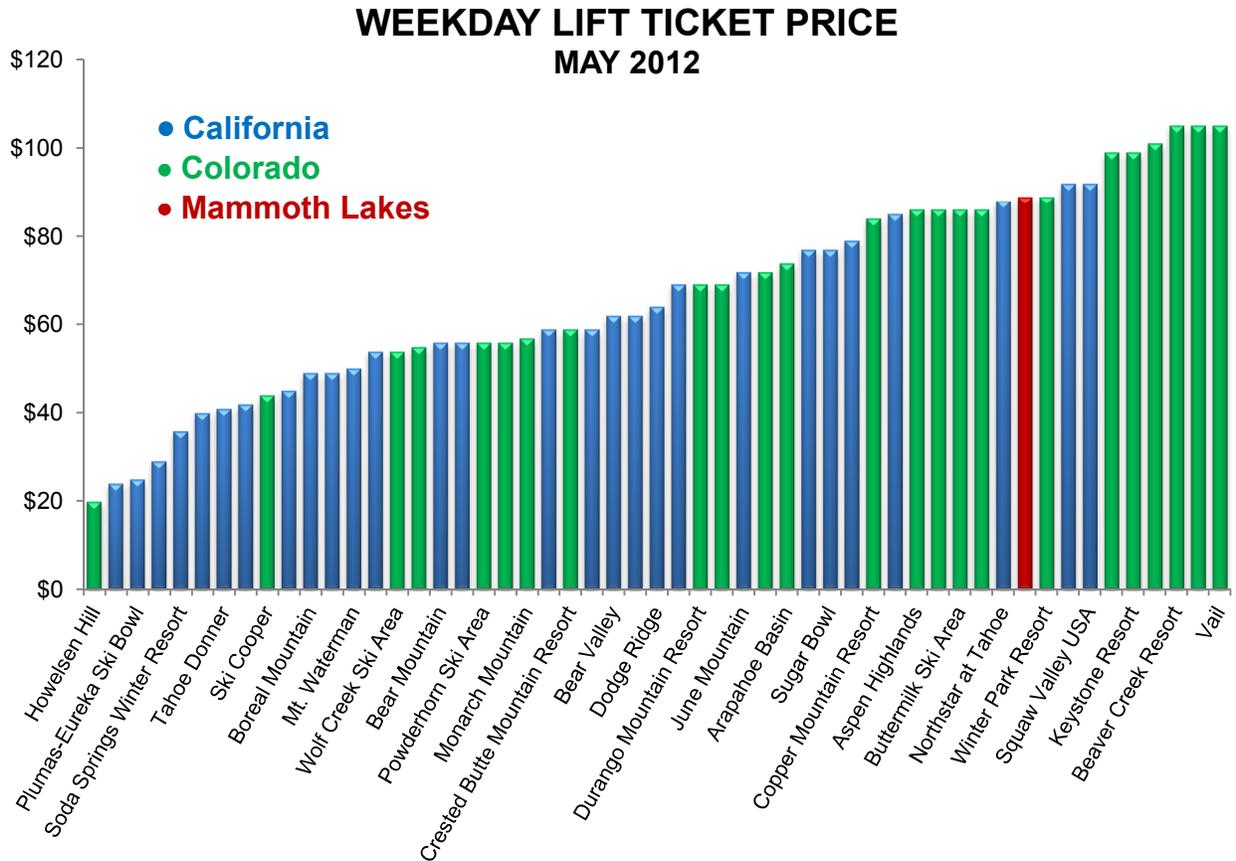
The competitive position of Mammoth Lakes skiing is further challenged by its lift ticket prices relative to those of competing ski resort communities. At present, Mammoth Mountain lift tickets are close in price to those at Telluride and Vail (\$101 and \$105, respectively); substantially higher than those at Aspen and South Lake Tahoe (\$86 and \$85, respectively); and approaching twice those at Big Bear Lake (\$56). The chart below compares Mammoth Mountain lift ticket prices compared to many other ski resorts in California and Colorado.

³¹ RRC Associates, Inc., op. cit., page 9.

³² RRC Associates, Inc., op. cit., page 11.

³³ RRC Associates, Inc., op. cit., page 16.

³⁴ Source: Michael Coleman, as cited at <http://www.californiacityfinance.com>.



Source: Resort websites.

Transactions & Use or Utility User Tax Increase

In addition to burdening visitor-oriented businesses whose performance is already problematic (see above), both these taxes are widely understood to be regressive – that is, they impose a relatively heavier burden on low-income households, because such households of necessity spend a higher percentage of their income on consumption, and consumption of essentials in particular. During a period of sustained economic distress of the kind we are now experiencing, strong equity-based arguments against raising such taxes reinforce arguments based on adverse economic effects generally.

In the case of Mammoth Lakes, considerations of equity, as well ability-to-pay – with respect to any tax increase – acquire added weight from two circumstances. The first of these is Mammoth Lakes’ large percentage of low-income households (see above). The second factor is Mammoth Lakes’ geographic isolation and consequent high cost of living, the latter reducing local purchasing power quite significantly. A recent survey conducted by Mammoth Lakes of the local cost of gasoline and a basket of eight basic

grocery items³⁵ relative to their average cost in “West Urban” markets, as calculated by the United States Department of Labor, Bureau of Labor Statistics (BLS), indicates a 13 percent price premium with respect to gasoline, and a 40 percent price premium with respect to groceries.

Conclusions

On a long-term basis, the economy of Mammoth Lakes has been stagnant, and on a near-term basis in decline. Imposition of added taxes not serving to finance improvements in municipal services or investment in growth could only exacerbate these problems and make recovery that much more unlikely.

No potential particular tax increase would be innocuous in its effects on Mammoth Lakes, either from an equity perspective or from the standpoint of economic growth. The welfare of the resident population is inseparably linked to the competitiveness of the ski resort and the derived demand for all facilities existing because of it, including all related real estate.

As observed by Stiglitz,³⁶ all local taxes, irrespective of type, are ultimately reflected in lesser land values, except insofar as they are borne by residents with an offsetting preference to remain in the community at issue for non-economic reasons. This stems from the fact that in the long run both capital and labor are mobile; individuals will require compensation for a tax that elevates the cost of living, or doing business, in the form of a lesser property costs. Taxes on tourists are no different, because, other things equal, they lessen the return to investment in the businesses serving them.³⁷ While difficult to quantify, the effects on property values would be especially pernicious in a community like Mammoth Lakes, owing to its geographic isolation, high cost of living, lack of diversified industry, and diminished prospects for growth. For example, the fact that condominium values in Mammoth Lakes have fallen even more precipitously than California home values generally relative to their mid-decade peak indicates Mammoth Lakes’ vulnerability, and the potential for further significant reduction in real estate values should additional taxes be levied. Equally, if not more important, is the economic hardship that would be imposed upon a large segment of the community, for both that and other reasons.

³⁵ Bread, chicken, eggs, milk, apples, bananas, oranges and tomatoes. Survey conducted April 17, 2012; BLS comparison prices as of March 2012. Source: Town of Mammoth Lakes.

³⁶ Joseph E. Stiglitz, *Economics of the Public Sector* (New York: Norton, 1986), pages 566-568.

³⁷ In a related vein, Stiglitz notes, “The same principal holds for any factor [of production] that is mobile in the long run. A number of states have suffered under the false impression that they could in fact succeed in taxing capital within their state at higher rates than it is taxed elsewhere. Some states have attempted to include income of international enterprises outside the state (or country) in the tax base on which they levy a corporate profits tax. If the above analysis is correct, such attempts cannot, in the long run, be successful. The communities are often misled into believing they can do this, because capital does emigrate instantaneously.” Stiglitz, *op. cit.*, page 569.

Respectfully submitted,
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6. Federal Housing Finance Agency, Home Price Index for State of California, 2005-11.
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Telephone Interviews

1. Rusty Gregory, Mammoth Mountain Ski Resort, March 29, 2012.
2. Pam Kobylarz, Assistant Town Manager, March 28, 2012.
3. Marianna Maysheva-Martinez, Assistant Town Manager, March 20 and April 3, 2012.
4. John Morris, Snow Creek Resort, April 4, 2012
5. Evan Russell, Mammoth Lakes Foundation, April 3, 2012.
6. Mark Wardlaw, Mammoth Lakes Community Development, March 29 and April 3, 2012
7. Dave Wilbrecht, Town Manager, March 20, 2012
8. John Urdi, Mammoth Lakes Tourism, April 9, 2012.

**Excel Spreadsheets Received from Mammoth Lakes
Town Representatives, Except as Otherwise Noted**

1. Gann Appropriations Subject to Limitation.
2. Mammoth Mountain Skier Visits and Related Financial Data, 2005-2012 (Mark Clausen, Mammoth Mountain management).
3. Mammoth Lakes Building Permit History, 2001-2010.
4. Mammoth Lakes Monthly Municipal Revenue, 2007-2011.
5. Mammoth Lakes Monthly Transit Occupancy Tax Revenue, 2006-2012.
6. Mammoth Lakes Property Tax Revenue Allocation Breakdown.