



*Town of Mammoth Lakes, California
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TOWN AND MLLA ANNOUNCE TERMS OF THE SETTLEMENT

Mammoth Lakes, California, September 21, 2012 – Following up on their announcement of the signing of a term sheet on August 21, 2012, the Town of Mammoth Lakes and Mammoth Lakes Land Acquisition LLC (MLLA) jointly announced today the settlement’s specific terms, executed by parties on September 20, 2012. Also parties to the settlement are the Airport Developer, Terrence Ballas and his related development entities (“Ballas entities”). The settlement amount is \$29.5 million, substantially less than the \$43 million judgment held by MLLA against the Town. Since the Town does not currently have available funds to pay the full \$29.5 million to MLLA right away, the settlement gives the Town an option to pay over time, starting with approximately \$2.5 million downpayment upon dismissal of the Town's chapter 9 case, and additional \$2 million payments annually for 23 years.

The Town can prepay at any time, without penalty, by seeking outside financing for the settlement. If the Town is unable to find such financing and instead follows the 23-year payment schedule provided in the settlement, it will pay the equivalent of a fixed 5.17% interest rate on a principal obligation of \$29.5 million. (5.17% is likely lower than what the Town could otherwise get in an open market today.) Under this long-term financing option, over the course of 23 years, the total amount paid would be \$48.5 million, including financing charges. For comparison, if the Town were to finance the \$43 million it currently owes to MLLA, on the same terms, it would pay nearly \$71 million over 23 years at a fixed 5.17% interest rate.

Additional terms of the settlement, the Town's rationale for settling, and the Town’s plan to finance payments are discussed further in this press release. The Town will hold a series of public meetings to review the settlement documents, answer questions from the community, and begin a dialogue regarding the Town’s plans to reorganize its operations in order to become more creative, effective and efficient, and afford the long-term settlement payments. **The first of such meetings has been scheduled for Thursday, September 27, 2012, at 6:00pm, in the Town Council Chambers.**

The settlement is the outcome of the U.S. Bankruptcy Court’s mandated mediation, led by U.S. Bankruptcy Judge Elizabeth Perris and lasting August 6 through the execution of the settlement. It leaves behind history that began with the Town entering into an Airport Development Agreement with Developer Terrence Ballas in 1997, continued with

Ballas transferring the hotel/condominium portion of the agreement to MLLA in 2004, MLLA subsequently suing and obtaining a legal judgment against the Town for \$30 million that has grown to \$43 million with interest and MLLA's unpaid legal fees, and eventually resulting in the Town filing for chapter 9 bankruptcy protection in July 2012.

The settlement avoids what would otherwise be heavily litigated, expensive, and highly uncertain bankruptcy proceedings, and becomes effective upon dismissal of the Town's chapter 9 case. The settlement calls for MLLA and the Town to jointly seek an amended writ of mandate from the State Court (in Mammoth Lakes), and for the Town to end its Chapter 9 bankruptcy case upon the State Court's approval of the amended writ. The parties anticipate that the necessary actions by both the State and Bankruptcy courts will occur by December 31, 2012.

Settlement terms

Below are the settlement's key terms:

1. The amount of the settlement in current terms (the Net Present Value) is \$29,500,434. **If the Town had funds to fully pay MLLA on the date the settlement is approved, it would write a check for \$29,500,434.**
2. Since at the moment, the Town is not able to pay the entire \$29.5 million, the settlement provides for a 23-year payment term, the equivalent of financing at a 5.17% fixed interest rate. Under this financing option, the Town will pay to MLLA \$2,523,286 following dismissal of the Town's chapter 9 case by the U.S. Bankruptcy Court. The Town will then make annual payments to MLLA of \$2,000,000, with the first payment due July 1, 2013, for a total of 23 years.
3. The Town will pursue efforts to raise funds to prepay the MLLA obligation through borrowing, and will work with both institutional and individual investors. The settlement does not call for any new taxes. However, the Town expects to engage the community in a discussion of whether a new tax should be raised with voter approval, to help pay off the settlement early.
4. Also parties to the settlement are the Ballas entities, the developer group holding commercial development rights under the Town's 1997 Airport Development Agreement and associated leases. The Airport commercial development has been put on hold since legal issues with MLLA emerged over the hotel/residential portion, and the Ballas entities have since asserted various contract breaches by the Town, which the settlement will address. As part of the settlement, the Ballas entities are transferring to the Town immediately the water system that supplies water to the airport and its related operations – a critical asset that is important for the Town to own and control.
5. Some of the leases that were approved as part of the Airport Development Agreement in 1997 – mainly the hangar leases – generate income to the Town and the Ballas entities, with the Town currently receiving approximately \$111,000 annually. These long-term leases generally have 37 years remaining on their term.
6. As part of the settlement, the Town will reassign its portion of the annual hangar lease revenues (currently \$111,000) back to the Ballas entities for 30 years. After 30 years, the Town will resume receiving the revenues until the leases expire. In

addition, following dismissal of the Town's chapter 9 case, the Town will pay the Ballas entities \$50,000, with an additional \$50,000 within one year of case dismissal.

7. The net present value of the reassigned lease revenue is \$2.5 million. In return for this reassignment, the Town will receive the following:
 - a) The Airport Development Agreement and remaining long-term leases for retail, restaurant, recreational vehicles, a general aviation terminal, and a gas station **will be cancelled**. The Ballas entities will forgo their rights under the Development Agreement, and the Town will no longer have any associated obligations (such as related to minimum investment in and improvements to the airport, approval of freeway signs, and so on).
 - b) The Town will be getting back its land currently encumbered by the Development Agreement and the terminated leases, and will be free to use these lands to pursue a C3 compliance level for the Airport, as well as offer land for expansion or relocation of appropriate businesses.
 - c) The Town will own and control the airport water system.
 - d) Ballas and his related entities will waive any and all claims that they have against the Town for any alleged breaches or non-performance. If not waived, these claims could lead to another multi-million dollar legal judgment.

The Town will soon publish all of the relevant settlement documents on the Town's website.

Rationale for Settlement

The Town, including its elected leaders, management, legal counsel, and financial advisors spent countless hours over many weeks on an extensive analysis of the costs and benefits of the settlement versus staying in bankruptcy, as originally approved by the Town Council with a proposed payment of \$6 million. The more the Town has learned about Chapter 9 bankruptcy and strengths and weaknesses of our particular case, the more evident the risks and costs became. More detail is provided below:

1. There was a possibility that the bankruptcy judge would find the Town ineligible for Chapter 9 relief, or would not approve our proposed debt restructuring plan. It became clear that the Town would be required to increase financial support for its litigation efforts in order to try to win eligibility and plan confirmation. These increases were estimated between \$2.5 million and \$5 million. Without a massive cash infusion (and, quite possibly, even after spending additional millions), there was a strong potential for a dismissal of the Town's bankruptcy case by the bankruptcy judge. This would immediately make the Town subject to the \$43 million State court writ, ordering the Town to pay the \$43 million immediately, or request a 10-year payment term (resulting in approximately \$6 million annual payments for 10 years, after applying the 7% interest set by California State law). The Town simply cannot afford to pay \$43 million immediately or \$6 million annually.
2. A prolonged legal battle with MLLA and other major creditors was anticipated in the bankruptcy court. Such a battle would require spending millions of dollars in legal fees, with a very uncertain outcome as to the eventual payment to MLLA.

3. Even if the Town eventually received the U.S. Bankruptcy Judge's approval of its debt adjustment plan, a payment to MLLA under that plan would likely be similar to the \$29.5 million negotiated under this settlement. And even then, the Judge's decisions could have been appealed by MLLA and others, resulting in yet more litigation and additional cost.
4. To finance litigation and eventual payment to MLLA, it was likely that the Town would be forced to use high-priority but discretionary spending sources such as Measures A and T, which currently fund tourism promotion, housing and transit programs.
5. The uncertainty of the ultimate decisions by the Federal Aviation Administration and/or the State Department of Transportation regarding the remainder of the Airport Development Agreement posed great risk. The Development Agreement, signed by the Town in 1997, still requires major approvals, including an environmental study, the access road extension and other onsite improvements.

The Town concluded that the settlement, including prompt dismissal of the bankruptcy case, was in the best interests of the Town. There are multiple **benefits** to the Town of this settlement:

1. The settlement provides certainty on the amount to be paid by the Town to MLLA and Ballas entities, and the duration of such payments; no such certainty could be possible in the context of a heavily litigated chapter 9 bankruptcy case.
2. The settlement, at its current present value of \$29.5 million, is considerably less than the \$43 million that the Town currently owes to MLLA under the legal judgment. The Town could raise funds and pay off MLLA immediately by writing a \$29.5 million check. Alternatively, the Town has 23 years to pay \$2 million annually, reflecting the equivalent of a loan with a 5.17% fixed interest charge, which is likely lower than what the Town could currently obtain in an open market. The Town could also prepay at any time during the 23-year financing term, if it has sufficient funds. Partial prepayments are also allowed, as low as \$250,000 in any given year.
3. It provides for payments over the course of 23 years – far longer than the 10-year period allowed under the State law.
4. It amicably resolves potential disputes with Ballas and the other DA Creditors with respect to the Development Agreements and related contracts and leases that were not assigned to MLLA.
5. The Town will be getting back numerous property and development rights, as well as the water system, as a result of the termination of the Development Agreement and certain related contracts, and these recaptured rights have both financial and strategic value to the Town.
6. The settlement avoids the cost, delay, distraction, and risk that would accompany extensive eligibility and plan confirmation litigation and permits a prompt dismissal of the Town's Chapter 9 case, further limiting costs.
7. A number of settlements reached with third parties during the pre-bankruptcy mediation process are contingent on effectuation of a plan of restructuring or a settlement with the Ballas entities. The settlement with the Ballas entities will result in the Town receiving the benefit of those third-party settlements.

Town's Restructuring Plan

During the next few weeks, the Town plans to meet with its employee groups to discuss ways to dramatically restructure its operations and provision of services. This will be a part of an effort to move to an innovative and collaborative model that reduces costs, engages other governmental agencies, volunteers, local non-profits, and the private sector. The Town's plan includes talking to employee groups and evaluating the following options:

1. Contracting out some of its services, to other governmental entities, non-profits, and/or the private sector.
2. In collaboration with neighboring entities, such as the school district, the hospital, the fire district, ESTA, Mono and Inyo counties, exploring opportunities to create economies of scale in the provision of common services, through formation of a Joint Powers Authority (a JPA, similar to ESTA).
3. Creating opportunities for the public to be more involved in government by establishing a far-reaching volunteer program, with opportunities in areas such as customer service, visitor services and neighborhood patrols.

The Town's restructuring plan may necessitate elimination of some Town positions. The Town will meet and confer with its employee groups, and those groups will be invited and encouraged to participate in a competitive process to bid on providing the various services and functions that the Town will be considering for outsourcing, including those that may be provided through a JPA.

The Town plans to begin a dialogue with the community regarding its restructuring plan at a regular meeting on September 27, 2012, at 6:00pm. The Town's desire is to begin implementing suitable portions of the plan by January 1, 2013.

In conclusion:

1. The Town fought hard to reduce the amount of the \$43 million judgment currently owed to MLLA. After receiving input and advice from a U.S. Bankruptcy Judge who became our court-appointed mediator, the Town has determined that this settlement, at \$29.5 million, was a far better alternative than taking a chance in a bankruptcy court.
2. The settlement provides certainty on the amount to be paid by the Town to MLLA and Ballas entities, and the duration of such payments. No such certainty could be possible in the context of a heavily litigated chapter 9 bankruptcy case.

For further information:

Please attend a public meeting scheduled for September 27, 2012, at 6:00pm, in the Town Council chambers. The Town will publish all of the relevant settlement documents on the Town's website in advance of the meeting, and have hard copies available at the meeting for discussion. Present at the meeting and available for questions will be the Town's court-appointed mediator and U.S. Bankruptcy Judge, Elizabeth Perris, as well

as legal counsel, including Ken Klee and Michael Tuchin of Klee, Tuchin, Bogdanoff and Stern, who are among the highest ranking and most respected in the bankruptcy field.

If you have questions prior to the meeting, please send them to mlsettlement@ci.mammoth-lakes.ca.us, or call (760) 934-8989, extension 223. Town staff will compile all questions and answers into a report available at the September 27, 2012 meeting, and later post information on the Town's website.