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## Summary:

# Mammoth Lakes, California; General Obligation

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## Table Of Contents

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Rationale

Outlook

Related Research

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### Credit Profile

US\$26.0 mil judgement refing bnnds ser 2017 due 10/01/2038

*Long Term Rating*

A/Stable

New

## Rationale

S&P Global Ratings assigned its 'A' long-term rating to the town of Mammoth Lakes, Calif.'s 2017 judgment obligation bonds. The outlook is stable.

The 2017 bonds are secured by any source of legally available funds of the town, including but not limited to amounts held by the town on deposit in its general fund. The bond proceeds will be used to prepay in full the town's obligations under a Sept. 20, 2012, settlement agreement with Mammoth Lakes Land Acquisition (MLLA) stemming from a November 2006 action alleging a breach of contract.

We note the town's political leadership and senior administrative staff have completely turned over since the submission of a bankruptcy petition in July 2012. Following conclusion of Mammoth Lakes mediated neutral evaluation process with its creditors under California Government Code section 53760.3 (AB 506), the town has been making payments as required under the terms of the resolution. Furthermore, while we had been concerned that the size of the payments would lead to a structural imbalance, in recent years the town successfully implemented a plan to reduce ongoing expenses, and as revenues have grown dramatically, the town has successfully kept operating costs down and used recent surpluses to restore its fiscal position.

The rating further reflects our view of the town's:

- Adequate economy, with a concentrated employment base;
- Adequate management, with standard financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2016;
- Strong budgetary flexibility, with an available fund balance that we expect will improve in the near term from its fiscal 2016 level of 6.2% of operating expenditures;
- Strong liquidity, with total government available cash at 74.4% of total governmental fund expenditures and 5.1x governmental debt service, but access to external liquidity we consider limited;
- Adequate debt and contingent liability position, with debt service carrying charges at 14.7% of expenditures and net direct debt that is 83.9% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value; and
- Strong institutional framework score.

## **Adequate economy**

We consider Mammoth Lakes' economy adequate. The town, with an estimated population of 8,002, is located in Mono County. The town has a projected per capita effective buying income of 99.9% of the national level and per capita market value of \$512,228. Overall, the town's market value grew by 2.5% over the past year to \$4.1 billion in 2017. Weakening Mammoth Lakes' economy is a concentrated employment base, with a single sector accounting for more than 30% of total county employment. The county unemployment rate was 5.3% in 2016.

Mammoth Lakes is 260 miles east of San Francisco and 300 miles north of Los Angeles. The eastern entrance of Yosemite National Park is located 32 miles north of the town. The area's employment base remains concentrated in tourism. Management estimates that roughly 50% of homes within Mammoth Lakes are second homes.

Historically, the town's economy has focused on winter tourism. However, in the last decade, the town has worked to diversify its economy to include summer tourism as well. Management estimates that the town hosts nearly 1.3 million visitors during the winter season and 1.5 million visitors in the summer season. However, because the summer visitors tend to spend less money on both lodging (mostly due to availability of camping) and recreation activities, most of the town's tourist-related revenue is raised in the winter months.

Mammoth Mountain Ski Resort is one of the most popular ski resorts in California. In July 2017, the resort was acquired by a partnership between Aspen Skiing Co. and private equity firm KSL Capital Partners. The newly formed group will now control 12 resorts between California and West Virginia.

Mammoth Lakes also manages a small airport with daily service to Los Angeles year-round, and additional service to other cities in the winter months.

## **Adequate management**

We view the town's management as adequate, with standard financial policies and practices under our Financial Management Assessment (FMA) methodology, indicating the finance department maintains adequate policies in some but not all key areas.

Key management policies include:

- A budget formation process that incorporates historical revenue and expenditure trends, as well as some independent revenue forecasts;
- An annual budget process with budget-to-actual reports presented to the full town council quarterly (midyear supplemental budget revisions are made as needed);
- Lack of a formal, long-term financial forecast of both revenues and expenditures beyond the budget year;
- A rolling five-year capital plan that identifies funding sources and is reviewed annually;
- A formal investment policy that details permitted instruments and portfolio objectives and includes monitoring requirements with annual presentation to council as a part of the audit;
- A basic, qualitative debt policy that does not include robust quantitative measures or benchmarks; and
- A minimum reserve and fund balance policy that includes a reserve for economic uncertainty equal to 16% of budgeted revenue, a newly implemented operating reserve equal to 9% of budgeted revenue, and \$100,000 for contingencies; the economic uncertainty and contingency reserves are currently funded, but the town is currently out of compliance with the operating reserve policy.

### **Adequate budgetary performance**

Mammoth Lakes' budgetary performance is adequate in our opinion. The town had operating surpluses of 4.4% of expenditures in the general fund and of 6.5% across all governmental funds in fiscal 2016.

Mammoth Lakes budgetary performance has steadily improved in recent years. In a subsequent settlement agreement with MLLA, in September 2012, Mammoth Lakes agreed to pay MLLA \$2.5 million in 2013 and \$2 million annually beginning in fiscal 2014, equating to roughly 10% of fiscal 2013 general fund expenditures. The large size of these payments stressed the town's structural balance in the initial years of the settlement agreement. However, the town successfully implemented a plan to reduce ongoing expenses, and as revenues have grown dramatically in recent years, the town has successfully kept operating costs down and used recent surpluses to restore its fiscal position. After adjustments, the town ended fiscal 2016 with a nearly \$1 million surplus (equal to 4.4% of operating expenditures).

We have adjusted general fund expenditures and the corresponding net transfers upward by \$2.6 million in fiscal 2014, \$4.6 million in fiscal 2015, and \$6.2 million in fiscal 2016 to reflect ongoing transfers out for debt service, the gas tax pass-through, and airport operations. We have also adjusted general fund revenues upward and the corresponding net transfers downward to reflect ongoing transfers-in; starting in the fiscal 2016 audit, these receipts began to be reported as general fund revenues, and so we did not adjust any transfers-in above the line in fiscal 2016. We have also adjusted fiscal 2016 transfers-out downward by \$5.3 million to remove the one-time effects of the town's actions to write off a \$4 million interfund receivable from the developer impact fee (DIF) fund and to transfer an interfund payable to the general fund.

According to unaudited actuals, the town ended fiscal 2017 with a \$3.4 million surplus.

General fund revenues largely consist of the town's transient occupancy tax (TOT), which in fiscal 2016 represented 67% of the town's general fund revenue. Other major general fund revenues include property and sales tax, which represented 14% and 8% of fiscal 2016 revenue, respectively. Given that growth in other major revenues has not kept pace with the dramatic increases in TOT revenue in recent years, the town's reliance on this revenue has grown by more than 10% since 2011, when TOT revenue represented only 55% of general fund revenues. According to management, the town has budgeted for TOT generally assuming 90% of a rolling three-year average, and may use a lower percentage in future budgets. However, with cumulative TOT revenue growth of nearly 60% in fiscals 2016 and 2017, the town has ended the year with sizable surpluses. As such, the rating also incorporates our view of the town's vulnerability to fluctuating revenue due to its reliance on a TOT, which in turn relies heavily on tourism.

And while the town is currently budgeting for near break-even results in fiscal 2018, management expect TOT revenues to come in significantly better than budgeted, likely resulting in another sizable surplus.

### **Strong budgetary flexibility**

Mammoth Lakes' budgetary flexibility is strong, in our view, with an available fund balance that we expect could improve in the near term from its fiscal 2016 level of 6.2% of operating expenditures, or \$1.3 million.

Budgetary flexibility has improved in recent years. Mammoth Lakes' available fund balance, including amounts committed for its emergency reserve, grew to 9.7% in fiscal 2015 from 2.8% in fiscal 2014; the 2015 figure incorporates

a \$4 million downward adjustment to reflect a questionable receivable that the town ultimately wrote off in 2016. While the available fund balance dropped to 6.2% of operating expenditures in fiscal 2016, we don't view this change as indicative of an operational imbalance, given that the town's one-time costs of \$1.3 million in fiscal 2016 (associated with transfer of DIF payable discussed above) is much larger than the roughly \$470,000 drop in available fund balance. According to the town's unaudited actuals, the available fund balance likely increased by \$3.4 million in fiscal 2017, resulting in a year-end fund balance of more than \$5 million. So even if the town finishes fiscal 2018 lower than budgeted levels, we expect it to maintain available reserves we view as strong. As such, our rating incorporates the likelihood of continued improvement in budgetary flexibility.

### **Strong liquidity**

In our opinion, Mammoth Lakes' liquidity is strong, with total government available cash at 74.4% of total governmental fund expenditures and 5.1x governmental debt service in 2016. In our view, the town has limited access to external liquidity if necessary.

We note that this issue will be the first time the town has issued bonded debt through a public sale since filing a bankruptcy petition in 2012. As a result, we believe Mammoth Lakes may have somewhat limited access to external liquidity. We do not expect any major drawdown on the town's cash for the foreseeable future.

We do not think that the town has an aggressive investment policy, as all town investments are in U.S. government obligations, U.S. agency issues, the State Treasurer's Investment Pool, or highly rated U.S. municipal debt.

In August 2015, the town entered into a privately placed lease agreement with an original par amount of \$3.6 million and a final maturity date of June 1, 2030. We note that the lease agreement's events of default include a cross-default provision, which we view as permissive; however, because any type of acceleration is excluded as a remedy, we don't view the obligation as posing a liquidity risk to the town.

### **Adequate debt and contingent liability profile**

In our view, Mammoth Lakes' debt and contingent liability profile is adequate. Total governmental fund debt service is 14.7% of total governmental fund expenditures, and net direct debt is 83.9% of total governmental fund revenue. Overall net debt is low at 1.7% of market value, which is in our view a positive credit factor.

According to management, the town has no authorized but unissued bonds outstanding, nor does it anticipate issuing additional long-term general fund bonds in the medium term. However, it is planning on issuing \$5.5 million of Measure R sales tax bonds through a private placement in the next few months.

Mammoth Lakes' combined required pension and actual other postemployment benefit contributions totaled 5.4% of total governmental fund expenditures in 2016. The town made its full annual required pension contribution in 2016.

The town participates in a cost-sharing, multiple employer defined-benefit pension plan managed by the Public Employees' Retirement System (CalPERS). Using updated reporting standards in accordance with Governmental Accounting Standard Board (GASB) Statement No. 67 and 68, the town's proportionate share of the net pension liability as of June 30, 2016, was \$15.9 million. As of the same date, CalPERS maintained a funded level of 78.4%, using its fiduciary net position as a percentage of the total pension liability.

## Strong institutional framework

The institutional framework score for California municipalities required to submit a federal single audit is strong.

## Outlook

The stable outlook reflects our opinion of the town's stable, if somewhat limited and cyclical, tourism-focused local economy, as well as our expectation that the town will maintain positive budget performance and continue to increase available fund balances. We don't expect to change our rating during the two-year outlook period.

### Upside scenario

We could raise the rating if the town continues to show positive performance and maintains fund balance levels that are in compliance with all town reserve policies.

### Downside scenario

We could lower the rating if the town fails to align ongoing expenditures with ongoing revenue and becomes structurally imbalanced.

## Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- 2016 Update Of Institutional Framework For U.S. Local Governments

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.globalcreditportal.com](http://www.globalcreditportal.com). All ratings affected by this rating action can be found on the S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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