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Summary:

Mammoth Lakes, California; General Obligation

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Long Term Rating

A+/Stable

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Rating Action

S&P Global Ratings revised its outlook to stable from negative and affirmed its 'A+' long-term rating on Mammoth Lakes, Calif.'s series 2017 judgment obligation bonds outstanding.

The rating action reflects management's effective budgeting practices toward maintaining balanced operations and very strong reserves, despite experiencing a decrease in revenue during the past two audited years. The stable outlook also reflects our expectations that the town's conservative budgeting practices will continue to support overall balanced operations and very strong reserves.

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. We rate the bonds on par with the town's general creditworthiness, based on our view that the town's ability to pay the obligation is closely tied to its operations, and the revenue used to secure the bonds is not limited in scope nor distinct and separate from its general fund. The bond proceeds were 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. 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.

Credit overview

The rating is supported by the town's solid financial profile, characterized by positive operating results and robust reserves, despite exposure to significant revenue volatility. Home to a popular ski resort in the Eastern Sierra Nevada Mountains, the town's general fund is significantly reliant on transient occupancy tax (TOT) revenue, with winter tourism as the town's primary revenue driver. The town's TOT revenue significantly declined due to the pandemic and COVID-19-related restrictions, leading to total revenues sustained below pre-pandemic levels for fiscal years 2020 and 2021. Despite this, the town's conservative budgeting practices have supported balanced operations through the pandemic and maintenance of available reserves of more than 30%. For fiscal 2022, the town is seeing record-breaking TOT performance from rebounds in winter tourism as well as increased summer tourism, and management expects to end the year with at least balanced results. Though we view the town's significant exposure to revenue volatility as a limiting credit factor, we view management's budgeting practices and very strong reserves as supportive of credit quality.

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

- Tourism-based local economy, with an elevated unemployment rate in 2020;
- Good financial management policies and practices and a strong institutional framework;
- Ample liquidity, though we view access to external liquidity as somewhat limited, given the town has not issued public market debt outside of the outstanding series 2017 judgement obligation bonds, since filing a bankruptcy petition in 2012; and
- Moderate debt profile, with additional debt plans.

Environmental, social, and governance

We analyzed the town's environmental, social, and governance (ESG) risks relative to its economy, management, financial measures, and debt and liability profile. We view the town's social risk as elevated compared to peers. The town has been experiencing housing affordability and workforce availability challenges, which could pressure the town's tourism-based economy in the long-term. To help address this, the town is investing in various types of housing programs and residential development projects. We view Mammoth Lakes' environmental risk as elevated, given its wildfire and drought exposure because of the mountainous and forested nature of the town and its immediate surroundings. The town's fire mitigation efforts include fuel reduction projects, establishing and expanding defensible space, and tree trimming. In addition to wildfire risk, we note the town is exposed to environmental risks related to drought and, over the longer term, climate change, both of which could have material negative effects on the town's finances, given the reliance of the local economy on winter tourism, in particular downhill skiing. We consider the town's governance risks as in line with our view of the sector standard.

Stable Outlook

Upside scenario

We could raise the rating if the town were to maintain its strong operating performance and very strong reserves, and if its economy were to sustain relative stability with unemployment rates remaining at moderate levels.

Downside scenario

We could lower the rating if the town were to experience a structural imbalance, leading to reserve levels sustained at levels no longer in line with the rating.

Credit Opinion

Winter tourism-based economy in the Sierra Nevada Mountains

The town, with an estimated population of about 8,000, is located in the Sierra Nevada Mountains and Mono County. The town is home to Mammoth Mountain Ski Resort, a popular ski resort drawing visitors from across the county as well as internationally. Winter tourism remains the town's primary economic engine, though year-round tourism has grown, with summer visitation increasing during the pandemic.

Periods of escalated COVID-19-related restrictions resulted in sharp decreases in visitation to Mammoth Lakes at

multiple points in the pandemic, but the town has seen strong rebounds in winter tourism and has also experienced historically high summer tourism. The town limited short-term housing rentals at the start of the pandemic, and did so again most recently in December 2021 during a surge in COVID-19 cases. The county's unemployment rate spiked at 28% in April 2020, which reflects the effect of COVID-19 and pandemic-related restrictions on the local tourism-based economy. The unemployment rate has since moderated to 4.4% as of December 2021. The town used COVID-19 relief funds to provide small local business assistance and local rental assistance. Outside of escalated periods of COVID-19 cases and restrictions, the town has seen strong upticks in visitation from domestic tourists year-round.

Mammoth Lakes manages a small airport with seasonal service to Southern California airports. Visitors driving from other regions of the state, particularly Southern California, have contributed to the town's domestic tourism. Additionally, new air service in the city of Bishop, about 45 miles southeast of Mammoth Lakes, is also drawing in visitors from the Midwest.

Strong financial management policies and practices

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;
- Recently adopted practice of annually updating a rolling five-year capital improvement plan (CIP) that lists planned projects and funding sources;
- 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 identifies required reserves for economic uncertainty equal to 20% of baseline revenue, an operating reserve equal to 5% of baseline revenue, a debt reserve to cover 50% of annual debt service in the event of a revenue shortfall, and an additional \$100,000 reserved for contingencies.

Positive operating results and robust reserves despite reliance on highly volatile revenue stream

Our calculation of financial performance includes adjustments to treat recurring transfers in and out of the general fund as revenue and expenditures, respectively, and removing large one-time expenditures. Despite the pandemic driving a decrease in TOT revenue, the town's conservative budgeting practices supported positive operating results for fiscal years 2021 and 2020. TOT revenue is the town's primary operating revenue stream, representing 60% of general fund revenue in fiscal 2021. Recognizing the volatility of TOT revenue, the town's practice is to adopt budgets with very conservative assumptions for TOT. The town then reviews TOT performance quarterly and allocates excess revenue for one-time purposes. Compared to fiscal 2019, TOT revenue was down by 17% and 21% for fiscal years 2021 and 2020, respectively. However, it still outperformed the town's adopted budget for each year, contributing to operating surpluses of 7% in fiscal 2021 and 11% in fiscal 2020.

For fiscal year 2022, the town has budgeted for balanced operations. The budget includes \$14.5 million in TOT revenue, but management is projecting between \$24 to \$26 million in TOT as the town is seeing record breaking year-to-date revenue performance as of January 2022. We understand the town will receive about \$2 million in American Rescue Plan Act (ARPA) funds, which are qualified as funds for revenue loss. In our view, future years' financial performance may be tempered compared with recent results, given the town's exposure to TOT volatility, but we expect the town will continue to budget conservatively and maintain structurally balanced operations.

Further supporting credit stability, we believe the town's ample available reserves, supported by its formal reserve policies, help to mitigate the town's exposure to TOT volatility. The town's available reserves were \$8.7 million, or 33% of operating expenditures, at fiscal 2021 year-end. Our calculations include amounts committed for the town's reserve for economic uncertainty. Management reports no plans to significantly draw down on its reserves, as its formal policy is to maintain a reserve for economic uncertainty of 20% and an operating reserve of 5%.

We view the town's cash position as very strong, though we believe it may have somewhat limited access to external liquidity. The town's series 2017 judgment obligation bonds were its first public sale of debt since filing a bankruptcy petition in 2012. Since then, the town has issued one series of bonds and entered into one capital lease through private placements, and it has not issued any additional public market debt. As of fiscal 2021, the town had \$6.5 million in privately placed debt outstanding. We have reviewed the terms of the town's private placements and do not find them to pose contingent liquidity risk. The town had \$53.6 million in total government available cash at fiscal 2021 year-end. We do not expect any major drawdown on the town's cash for the foreseeable future.

Additional debt plans expected to keep the debt profile moderate

We understand the town plans to issue about \$18 million in publicly offered debt within the next year to finance the construction of a new municipal building. The town is also considering issuing about \$2 million in privately placed debt for the construction of a pedestrian bridge. We do not expect the additional debt plans to materially pressure the town's debt profile.

In our opinion, a credit weakness is Mammoth Lakes' large pension liability. The town's combined pension and OPEB contributions totaled 8.2% of total governmental fund expenditures in fiscal 2021, with 7.9% representing contributions to pension obligations and 0.4% representing OPEB payments. The town made 101% of its required pension contribution in 2021.

The town participated in the following plans as of the June 30, 2020, measurement date:

- CalPERS multiemployer defined-benefit pension plan: net pension liability of \$23.1 million, or 68.1% funded ratio; and
- Single-employer defined-benefit OPEB plan: net OPEB liability of \$2.2 million, or 15.8% funded ratio.

CalPERS has lowered its discount rate to 6.8%, from 7.0%, in fiscal 2022, with the idea of reducing market risk. We believe a discount rate above our pension guideline of 6.0% could lead to contribution volatility. For more information on our view of California pensions, see "Pension Spotlight: California," published July 13, 2021.

Strong institutional framework

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

	Most recent	Historical information		
		2021	2020	2019
Weak economy				
Projected per capita EBI % of U.S.	113			
Market value per capita (\$)	661,301			
Population		7,827	8,358	8,306
County unemployment rate(%)			11.8	
Market value (\$000)	5,176,005	4,898,937		--
Ten largest taxpayers % of taxable value	9.2			
Strong budgetary performance				
Operating fund result % of expenditures		6.8	10.7	34.0
Total governmental fund result % of expenditures		14.8	9.5	38.6
Very strong budgetary flexibility				
Available reserves % of operating expenditures		33.1	30.9	42.9
Total available reserves (\$000)		8,697	7,042	9,674
Strong liquidity				
Total government cash % of governmental fund expenditures		154	128	125
Total government cash % of governmental fund debt service		1913	1697	1471
Strong management				
Financial Management Assessment	Good			
Adequate debt & long-term liabilities				
Debt service % of governmental fund expenditures		8.1	7.6	8.5
Net direct debt % of governmental fund revenue	69			
Overall net debt % of market value	1.3			
Direct debt 10-year amortization (%)	69			
Required pension contribution % of governmental fund expenditures		7.9		
OPEB actual contribution % of governmental fund expenditures		0.4		
Strong institutional framework				

EBI--Effective buying income. OPEB--Other postemployment benefits.
Data points and ratios may reflect analytical adjustments.

Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022
- 2021 Update Of Institutional Framework For U.S. Local Governments, Oct. 11, 2021
- Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014 S&P Public Finance

Local GO Criteria: How We Adjust Data For Analytic Consistency, Feb. 18, 2014

- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings , Oct. 7, 2019

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