

# RatingsDirect®

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## Summary:

# Mammoth Lakes, California; General Obligation

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### Credit Profile

Mammoth Lakes GO

*Long Term Rating*

A+/Negative

Affirmed

## Rating Action

S&P Global Ratings affirmed its 'A+' long-term rating on Mammoth Lakes, Calif.'s series 2017 judgment obligation bonds. The outlook is negative.

On May 21, 2020, S&P Global Ratings revised its outlook to negative from stable on a number of local government credits with outstanding tax-secured debt, including our rating on Mammoth Lakes, due to heightened risks related to the COVID-19 pandemic and related economic recession. The negative outlook reflects our view that there is at least a one-in-three chance of a lower rating within the outlook period, which is up to two years, given the challenges we expect Mammoth Lakes will continue to face given the reliance of its general fund on economically sensitive transient occupancy tax (TOT) revenue and of its economy on tourism. The rating affirmation reflects our view that although we believe the outlook remains negative, the town's financial performance has upheld better than expected through the first several months of the pandemic, and the town retains very strong available reserves that we believe will continue to provide an important cushion mitigating the risk of potential volatility with its primary operating revenue stream as the pandemic continues.

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 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

Mammoth Lakes' credit profile reflects the tourism-based town economy's recent years of strong development and TOT growth, which, along with manageable expenditure growth and conservative budgeting practices, have translated to maintenance of very strong available reserves. It further reflects our view that, although the credit trajectory has been positive in the years that have passed since the town filed for bankruptcy in 2012, the town's economy and budget remain exposed to downside pressures, given the cyclical and volatility inherent in its reliance on tourism. The COVID-19 pandemic has shone a spotlight on tourism-related volatility and related risks since the onset of the pandemic in the U.S. in March 2020. While we note that the town's economy and budget appear to be demonstrating a greater degree of resilience than may have been expected and as illustrated by the town's modified fiscal 2020 budget,

we believe the near-term outlook remains sufficiently uncertain to sustain the rating outlook as negative at this time.

For more information on the coronavirus' effect on U.S. Public Finance, see our reports "The U.S. Economy Reboots, With Obstacles Ahead," published Sept. 24, on RatingsDirect, and "U.S. Economic Update: A Recovery At Risk As COVID-19 Surges," published July 22, 2020.

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

- Adequate economy, with market value per capita of \$589,231 and projected per capita effective buying income at 111%, though this is slightly limited by a concentrated employment base;
- Adequate management, with standard financial policies and practices under our Financial Management Assessment methodology;
- Weak budgetary performance, with operating results that we expect will deteriorate in the near term relative to fiscal 2019, which closed with operating surpluses in the general fund and at the total governmental fund level;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2019 of 43% of operating expenditures;
- Strong liquidity, with total government available cash at 124.9% of total governmental fund expenditures and 14.7x governmental debt service, but access to external liquidity we consider limited;
- Adequate debt and contingent liability position, with debt service carrying charges at 8.5% of expenditures and net direct debt that is 61.9% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 66.5% of debt scheduled to be retired in 10 years, but a large pension and other postemployment benefit (OPEB) obligation; and
- Strong institutional framework score.

### **Environmental, social, and governance (ESG) factors**

We analyzed the town's ESG risks relative to its economy, management, financial measures, and debt-and-liability profile. Our ratings incorporate our view regarding the health and safety risks posed by the COVID-19 pandemic. Absent the implications of COVID-19, we consider the town's social and governance risks to be in line with our view of the sector standard. We consider the town exposed to elevated environmental risks that could have negative effects on the town's tax base and finances, if risk events materialize.

In particular, we consider the town exposed to wildfire risk, given the mountainous and forested nature of the town and its immediate surroundings. Through the late summer and early fall of 2020, numerous large wildfires have destroyed millions of acres of forest land and threatened communities throughout much of the state. The ongoing Creek Fire's borders are about 12 miles from Mammoth Lakes, though management reports its historic and ongoing fire mitigation efforts have lessened risk to the town's property itself. The town's fire mitigation efforts include fuel reduction projects with particular focus around the town's electric utility infrastructure, 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 a material negative effects on the town's finances, given its reliance of the local economy on winter tourism, and in particular downhill skiing.

## Negative Outlook

### Downside scenario

If the town's unemployment rate remains elevated, our assessment of the town's economy may worsen, and we could lower the rating. In addition, if there is a resurgence in the pandemic, a prolonged economic recovery, or if other factors suppress tourism and TOT revenue, leading to structural budgetary imbalance or a material drawdown in reserves, we could lower the rating.

### Return-to-stable scenario

If the town's economic and financial metrics demonstrate resilience, and if the town is able to maintain very strong available reserves, despite the challenges posed to its TOT revenue stream and tourism-dependent economy by the ongoing pandemic, we could return the outlook to stable.

## Credit Opinion

### Adequate economy

We consider Mammoth Lakes' economy adequate. The town, with an estimated population of 8,306, 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, and summer 2020 saw strong overall activity, with a rebound from a tourism industry shutdown during the spring. We understand that Mammoth Mountain Ski Resort plans to open for the season on Nov. 14, 2020.

With the onset of the COVID-19 pandemic and related economic recession, county-level unemployment spiked to 29.3% in May 2020, after sitting at or below 4% throughout the prior year. The rate declined to 16.6% in July 2020, lower but still above the state (11.6%) and national (8.5%) rates for that month. Contributing to the spike in unemployment was the town's action to close itself to short-term rentals to nonessential workers in March until June 19, as it sought to limit the spread of the coronavirus.

The town is located about 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. 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.

The town has a projected per capita effective buying income of 111% of the national level and per capita market value of \$589,231. The county unemployment rate was 3.7% in 2019. The county's unemployment rate has consistently trended in line with and slightly below the state rate, up until the onset of the ongoing pandemic.

### Adequate management

We view the town's management as adequate, with standard financial policies and practices under our Financial Management Assessment 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 capital improvement plan (CIP) that focuses on the next budgeted year, with town engineering staff preparing a list of medium-term project priorities, but no rolling five-year CIP that lists planned projects and funding sources beyond the next budgeted year;
- 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 16% of budgeted revenue, an operating reserve equal to 9% of budgeted revenue, and an additional \$100,000 reserved for contingencies; the town met the economic uncertainty reserve but not the operating reserve in each of the past three fiscal years, and management indicates it expects to meet both required reserves for fiscal 2021.

### **Weak budgetary performance**

Mammoth Lakes' budgetary performance is weak in our opinion. Though the town had very strong operating surpluses of 34% of expenditures in the general fund and of 38.6% across all governmental funds in fiscal 2019, we expect a deficit for fiscal 2020 as a result of the pandemic's strongly negative effect on the local tourism industry for the fourth quarter of fiscal 2020, as the local tourism industry substantially shut down as officials and businesses acted to attempt to abate the spread of the virus. Management has also budgeted for a deficit in fiscal 2021, and our assessment reflects our view of what we consider to be a relatively high degree of uncertainty for fiscal 2021 results, given the ongoing COVID-19 pandemic and the town's reliance on tourism-driven TOT and sales tax revenue to fund operations.

Management reports that estimated actuals for fiscal 2020 reflect a \$1.8 million general fund deficit, equal to negative 6.2% of expenditures, driven primarily by a \$1.3 million use of reserves for expenditures related to COVID-19 response efforts along with a transfer of about \$700,000 to the capital fund for future capital projects. Though the town's modified budget reflects a \$5.0 million (16% of expenditures) deficit, management indicates expenditure savings and some additional revenue realized led estimated results to outperform the modified budget prepared toward the beginning of the onset of the pandemic. For fiscal 2021, management has budgeted a \$1.0 million deficit (negative 5% of general fund expenditures). We understand that year-to-date revenue, particularly TOT revenue, has substantially outperformed the budget, though we believe a relatively large amount of uncertainty exists related to TOT revenue and the local tourism industry in particular.

TOT revenue is the town's primary operating revenue stream, comprising two-thirds of general fund revenue in fiscal 2019. Property taxes (12%) and sales taxes (9%) are the next largest contributors to general fund revenue. The town's

reliance on TOT has been a boon in recent years, as strong and increasing tourism activity and hotel and short-term rental bookings have driven revenue upward, helping the town not only attain surpluses in each of fiscal years 2017 through 2019, but also accumulate very strong reserves. TOT revenue for fiscal 2019 was the highest ever for the town, and management's estimates for fiscal 2020 indicates the fourth-strongest year for TOT revenue during the past 10 fiscal years, despite a shutdown in the fourth quarter due to the pandemic. In addition, we note the current management team has consistently substantially under-budgeted TOT revenue, which we understand is both an effort to mitigate the risk of a budgetary crunch driven by potential shortfalls in this cyclical and potentially volatile revenue stream, as well as an effort to maintain conservative overall budgetary practices.

July 2020 saw the second strongest TOT collections ever posted for that month, while August 2020 saw the highest ever collections for that month. Though we view this recent data as a notable credit positive for the town, we note the town consistently derives a majority of its total TOT revenue during the winter months, and we believe risk remains due to the uncertain near-term future of the ongoing pandemic, and the prospect of additional tourism industry disruption or shutdowns.

Conservative budgeting and robust TOT revenue production contributed to three consecutive years of very strong operating results through fiscal 2019. We calculate surpluses of \$7.7 million (34% of general fund expenditures) for fiscal 2019, \$2.9 million (13%) for fiscal 2018, and \$3.6 million (16%) for fiscal 2017. Our calculations treat recurring transfers into and out of the general fund as revenue and expenditures, respectively. For fiscal 2018, we have also netted out a larger one-time capital outlay related to land acquisition. Across all governmental funds, we calculate very strong surpluses in fiscals 2017 and 2019, with a marginal deficit in fiscal 2018 driven by larger one-time capital outlays that year.

### **Very strong budgetary flexibility**

Mammoth Lakes' budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2019 of 43% of operating expenditures, or \$9.7 million. Our calculations include amounts committed for the town's reserve for economic uncertainty. The town had available reserves of \$8.4 million (37% of expenditures) in fiscal 2018 and \$4.1 million (18.4%) in fiscal 2017.

Management's modified budget, which as discussed above is expected to be out-performed per unaudited estimated communicated to us by management, reflected about a \$1.8 million use of available reserves. Compared to fiscal 2020's modified budget, this would equal about 27% of expenditures, which we still consider very strong. For fiscal 2021, management has budgeted about a \$1.0 million use of reserves, which would bring available reserves to about \$6.9 million, or 32% of budgeted expenditures. As such, we expect reserves will remain very strong.

### **Strong liquidity**

In our opinion, Mammoth Lakes' liquidity is strong, with \$42.4 million in total government available cash at 124.9% of total governmental fund expenditures and 14.7x governmental debt service in fiscal 2019.

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 has not issued any additional public market debt. As a result, we believe Mammoth Lakes may have somewhat limited access to external liquidity. The town had \$45.5 million in total government available cash in

September, 2020. We do not expect any major drawdown on the town's cash for the foreseeable future.

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.

We have reviewed the terms of the town's private placements and do not find either to pose contingent liquidity risk.

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

In our view, Mammoth Lakes' debt and contingent liability profile is adequate. Total governmental fund debt service is 8.5% of total governmental fund expenditures, and net direct debt is 61.9% of total governmental fund revenue.

Overall net debt is low at 1.4% of market value, and approximately 66.5% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors. 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.

### **Pension and other postemployment benefit (OPEB) highlights**

- In our view, a credit limitation is the town's large pension obligation, which we believe could pose budgetary pressure in the coming years.
- The town's pension funded status, combined with changes to assumed discount rates in recent years, will likely lead to accelerating costs in the medium term. However, we believe this approach will help the town make timely progress reducing pension liabilities.
- We consider the town's OPEBs manageable, with a \$3.8 million net liability at June 30, 2018, and 9.1% funded ratio, with OPEBs paid on a pay-go basis.

The town participates in the California Employees' Retirement System (CalPERS) cost-sharing multiple-employer pension plan. The town's proportion of the total plan liability was \$20.8 million at fiscal year-end 2018, and the plan was 73% funded at June 30, 2019.

Mammoth Lakes' combined required pension and actual OPEB contributions totaled 7.0% of total governmental fund expenditures in 2019. Of that amount, 6.4% represented required contributions to pension obligations, and 0.5% represented OPEB payments. The town has made its annual required pension contribution in recent years.

The town's fiscal year 2019 actuarially determined contributions for both CalPERS plans fell short of both static funding and minimum funding progress, indicating no funding progress and an increase in liabilities. We see CalPERS' recent adoption of a 20-year, level dollar amortization approach for new gains and losses as a turning point in that contribution increases from a shorter amortization period will provide faster recovery to plan funding following years of poor investment performance or upward revisions to the pension liability, which we view favorably. However, we believe costs will increase for the next several years to retire existing unfunded liability, much of which is amortized over 30-year periods using a level-percent-of-payroll approach. In our view, the discount rate of 7.15% could lead to contribution volatility, and it is materially higher than our guidance for a 6.0% discount rate.

### **Strong institutional framework**

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

## **Related Research**

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- 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
- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020
- 2019 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.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on 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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