



Town of Mammoth Lakes

BUDGET FACTS

For Fiscal Year 2012-2013

Town Council

- Jo Bacon, Mayor
- Matthew Lehman, Mayor Pro Tem
- John Eastman, Council member
- Skip Harvey, Council member
- Rick Wood, Council member

Management Team

- David Wilbrecht, Town Manager
- Marianna Marysheva-Martinez, Assistant Town Manager
- Andrew Morris, Town Attorney
- Jamie Gray, Town Clerk
- Cyndi Myrold, Finance Manager
- Michael Dang, Budget & IT Manager
- Robin Picken, Personnel and Risk Manager
- Dan Watson, Police Chief
- Mark Wardlaw, Community Development Director
- Raymond Jarvis, Public Works Director
- William Manning, Airport and Transit Director
- Stuart Brown, Recreation Manager

May 16, 2012

Town's Budget Process

Since February 2012, Town staff has had several public presentations on the matters related to the Town's finances and specifically the FY 2012-13 baseline budget, and the judgment awarded to Mammoth Lakes Land Acquisition (MLLA).

The most recent public discussion was held on May 8, 2012. During that meeting, Town staff presented to the community a budget reduction plan to address the FY 2012-13 budget shortfall of \$2.8 million, and

long-term projections by FTI Capital Advisors (FTI) that estimated a \$550,000 annual surplus available for a settlement with Mammoth Lakes Land Acquisition (MLLA) and other creditors.

After May 16, 2012, budget discussions will continue during regular Town Council meetings on June 6 and June 20, 2012. If necessary, special budget meetings will be scheduled.



Lawsuit by Mammoth Lakes Land Acquisition (MLLA) and Its Impact on the Town's Finances

In 1997, the Town entered into a Development Agreement (DA) with Terrance Ballas (Developer) to develop land near the Airport. The Developer subsequently transferred development rights for the residential portion of the DA to Mammoth Lakes Land Acquisition (MLLA).

In 2006, MLLA sued the Town for breach of contract over their portion of the DA, and in 2008 was awarded \$30 million. While the Town appealed the judgment several times, those appeals were ultimately unsuccessful. The Town requested review by the California Supreme Court, but that request was denied in March 2011. The amount of the judgment, in the meantime, has grown to over

\$43 million, including 7% interest and MLLA's legal fees.

In March 2011, the Town and MLLA met and established a process to exchange information and begin settlement discussions. Settlement talks began in October 2011, and continued through December 2011, without any agreement between the parties. In January 2012, the Town began projecting additional fiscal issues in the FY 2011-12 and FY 2012-13 budgets, precipitated mainly by the low snowfalls in December 2011. The Town promptly began developing a restructuring plan to address all of its obligations, including the MLLA judgment.

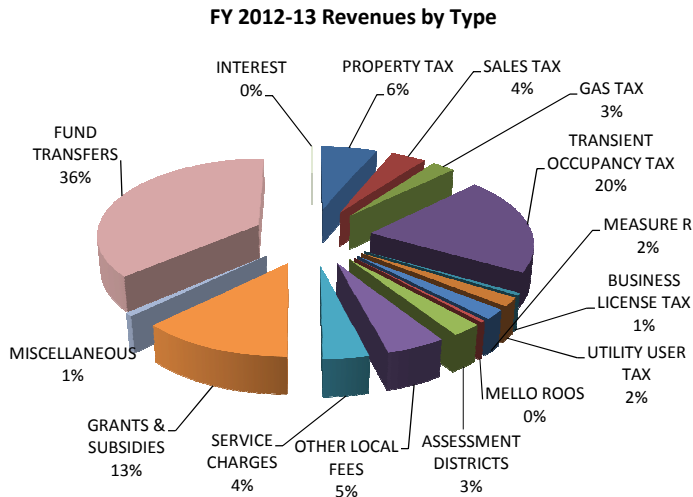
In its January 19, 2012 letter to

MLLA, the Town stated that another settlement offer would be presented to MLLA after February 1, 2012.

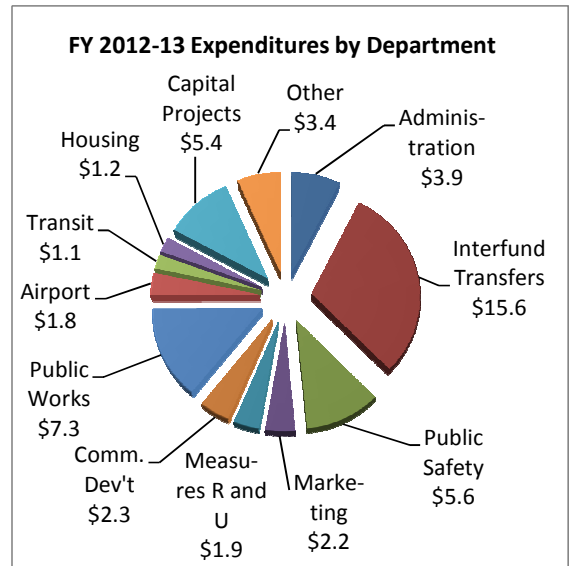
On February 2, 2012, MLLA filed a petition with the State Court seeking a writ demanding the Town to pay the full \$42 million judgment. The writ was granted on March 23, 2012, and the Town has until June 30, 2012 to pay in full, or to develop a plan for a longer-term payment.

The Town has developed a Budget Reduction Plan that creates a \$550,000 annual surplus over a long-term period of time to help satisfy the MLLA judgment. See discussion of the Plan further in this document.

How Much is the Town's Budget? What Does It Pay For?



The Town uses its revenues to pay for various programs and services. Restricted revenues (such as Measures R and U, and state Gas Tax) are used for purposes allowed under the applicable law. The chart below shows how the Town's revenues are spent. The amounts on the chart are as of the FY 12/12 Baseline Budget, and do not reflect some \$2.5 million in Budget Reduction measures.



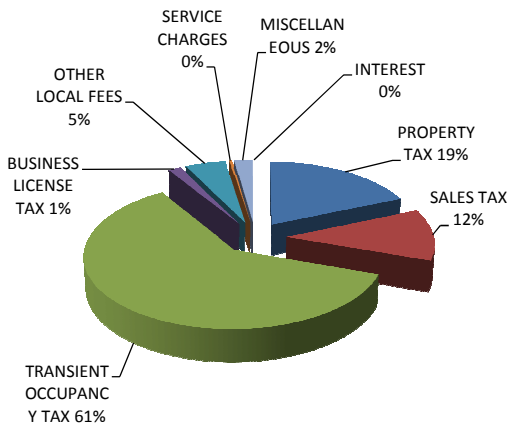
The Town's overall budget is \$51.7 million. However, \$15.6 million of that are transfers from the General Fund to various departments to subsidize their costs. Net of these transfers, the Town's overall budget is only \$36 million. The Town has numerous funding sources. Some are restricted in their use, others are available to pay for general government expenses, such as public safety, recreation programs, road maintenance and snow removal, and so on. The chart above illustrates the breakdown of the Town's revenues for FY 2012-13.

What Is the General Fund?

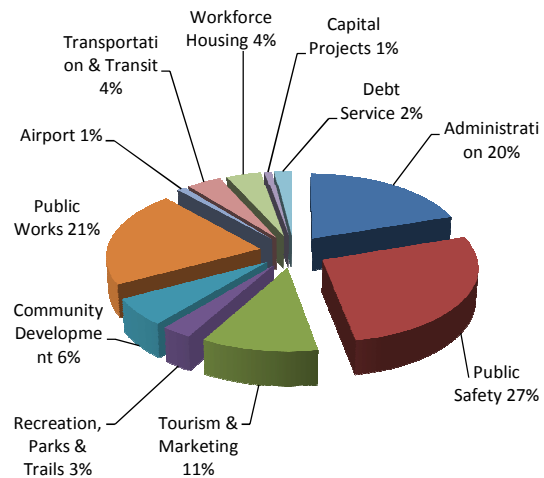
The Town's various revenues and expenditures are accounted for in various "funds", similar to bank accounts. The largest fund of the Town is called the General Fund, fund #001. It accounts for \$16 million to \$19 million of the Town's overall budget.

The General Fund collects unrestricted revenues, such as property taxes, sales tax, transient occupancy tax, and so on. These revenues are spent on general government programs and services. This fund also transfers money to the specific areas deemed high-priority for the Town, per the long-standing commitments made to voters to ensure their support for past transient occupancy tax rate increases.

FY 2012-13 General Fund Revenues



FY 2012-13 General Fund Expenditures



Why Was There a Budget Shortfall, and Why Can't the Town Just Make Cuts or Raise Revenues?

Generally, the Town's available revenues are not sufficient to pay all of the Town's current expenses. The issue is mainly within the General Fund, but other funds contribute to it to the extent that the General Fund subsidizes their operations. For example, if State Gas Tax revenues are insufficient to pay for road repairs and snow removal, the Town's General Fund covers the gap. The General Fund gap is widening because the growth rate on the revenue side has been lower in recent years and months than cost increases on the expenditure side.

Currently, the Town projects a budget gap of nearly \$1 million in the present fiscal year (FY 2011-12), and a \$2.8 million shortfall in FY 2012-13. These shortfalls do not account for the unmet needs such as the insufficient road repair spending, and do not address the \$42 million MLLA judgment.

The budget gaps were addressed in prior years through substantial cuts in personnel and services. For example:

- ◆ In FY 09-10, the Town eliminated 17 positions, eliminated or reduced non-essential expenditures, and employees agreed to a number of concessions.
- ◆ In FY 10-11, the Town eliminated additional six positions, suspended Ice Rink operations, used one-time \$577,000 funding, and employees agreed to further concessions.
- ◆ In FY 11-12, the Town balanced a General Fund gap of \$2.7 million through some significant reductions, which included additional employee concessions, further position eliminations, use of one-time money from non-General Fund sources, and deferral of road rehabilitation.

The result is an organization that is significantly reduced from both a staffing and services standpoint, and which necessarily underfunds or defers some of its essential obligations.

- ◆ The Town has very minimal available resources, has reduced staffing and spending significantly, and already underfunds road rehabilitation and maintenance, vehicle replacement, and capital projects.
- ◆ In future years, baseline General Fund revenues will likely be insufficient to cover baseline General Fund expenses. This will require reallocation of General Fund resources among the various programs, leading to further service level reductions.
- ◆ Complicating the issue, the Town already has a very high level of taxation, and can not raise taxes without voter approval.

What Is the Budget Reduction Plan, and Does It Address All of the Town's Debts?

After an in-depth and diligent analysis of all of its expenses and operations, the Town has developed a Budget Reduction plan to: (i) adjust the Town's expenditures and revenues through specific measures to balance the budget for the upcoming 2012-2013 fiscal year; (ii) create surplus funds to satisfy debts and obligations currently owed, including MLLA; and (iii) put the Town on a sustainable footing for future years, given what we know about the future.

In deciding to implement the Budget Reduction Plan, the Town has considered the competing demands for the Town's limited resources and balanced that with the obligations that the Town must fulfill in order to maintain Mammoth Lakes as a livable place for its residents, a desirable destination for its visitors (who provide substantial revenue to the Town and can choose among many resort towns), and a responsible payer of its debts.

The Budget Reduction Plan contains an estimated \$2.5 million in annual savings and includes the following measures:

- ◆ Employee pay concessions of 10-24% (\$1 million in savings).
- ◆ Departmental program reductions (\$1 million in savings).
- ◆ Proposed Reductions in "Voter Commitment" Funding to tourism, housing and transit (\$154,000 in net savings).
- ◆ Revenue enhancement through additional TOT enforcement (\$0.5 million in additional revenue).
- ◆ 10% reduction in property lease payments (\$50,000 in savings).
- ◆ In addition, the Town has decided to continue deferring the road rehabilitation funding, paying only half (\$750,000) of the annually optimal amount of \$1.5 million.

The Town engaged a financial advisor, FTI, to assist with a long-term projection of its revenues and spending, and the corresponding forecast of the contemplated balancing measures. FTI has completed their work. An executive summary of their long-term projections was first presented publicly on May 8, 2012.

After taking into account the Town's baseline budget for all funds, and the above balancing measures applied to the General Fund, the FTI model estimates that over the five-year forecast period, some \$3.6 million in net funds will be generated. After the five-year forecast period, it is projected that some \$550,000 in annual funds will be available for creditors.

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www.ci.mammoth-lakes.ca.us

What About AB 506 Mediation and the Threat of Bankruptcy?

A new California State law, which became effective in January 2012, requires that a municipality considering Chapter 9 bankruptcy protection to engage in a pre-bankruptcy “neutral evaluation process” (i.e., mediation) first. Once the parties that have agreed to participate in the mediation process select a mediator, the mediation should last no more than sixty days. On February 15, 2012, the Town sent a letter to MLLA initiating the mediation process. On March 6, 2012, similar letters were sent to other interested parties, inviting such parties to participate in the mediation process.

The Town’s creditors participating in the mediation selected the Hon. David Coar as the mediator, and the mediation process is under way. The mediation process is currently confidential.

In the event that mediation is unsuccessful, the Town may then seek Chapter 9 bankruptcy protection. The Chapter 9 process does not have any specific timeframes from beginning to end. However, the Town’s legal firm of Fulbright and Jaworski has successfully taken other clients through efficient and streamlined bankruptcies.



Where Can I Get Further Information?

You can contact the Town Manager’s office at 760-934-8989, extension 223. Please also visit the Town’s website, at www.ci.mammoth-lakes.ca.us, to find information and documents on the Town’s finances, budget presentations, MLLA judgment and related matters, and more.

