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Summary:

Mono County, California; Appropriations

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US$20.17 mil certs of part (Mono County Civic Ctr) ser 2018A due 08/01/2048		
Long Term Rating	AA-/Stable	New

Rationale

S&P Global Ratings assigned its 'AA-' long-term rating to Mono County, Calif.'s series 2018A certificates of participation (COPs) with a par of approximately $20.13 million. The outlook is stable.

The COPs are secured by lease rental payments made by the county, as lessee, to the Mono County Economic Development Corp., as lessor, for the use of the leased property, which is the county civic center that will be constructed using the COPs' proceeds. We rate these obligations one notch lower than our view of the county's general creditworthiness to account for the appropriation risk associated with the lease payment. The county has covenanted to budget and appropriate funds for the bonds' repayment, and has considered the affordability of the lease payment in its long-term plans. We considered the affordability and likelihood of the lease payment, which is reflected in the appropriation rating and in our view of the county's general creditworthiness. In our view, the lease features and terms are standard, with no unusual risks regarding timely debt payments. Under the agreements, the county can abate lease payments in the event the leased property is damaged or destroyed. To mitigate the risk of abatement in such a case, the county has agreed to maintain at least two years of lease interruption insurance as well as casualty insurance equal to the full replacement cost of the damages. To mitigate construction risk associated with the project, the COPs include capitalized interest extending three months beyond anticipated project completion in February 2020. Excluding the series 2018A COPs and debt secured solely by county enterprise revenues, the county has less than $1 million in net direct debt outstanding.

The rating reflects our view of the county's:

- Adequate economy, with a concentrated employment base;
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2017;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2017 of 37% of operating expenditures;
- Very strong liquidity, with total government available cash at 72.7% of total governmental fund expenditures and 38.4x governmental debt service;
- Adequate debt and contingent liability profile, with debt service carrying charges at 1.9% of expenditures and net direct debt that is 40.9% of total governmental fund revenue, as well as low overall net debt at less than 3.0% of

market value, but a large pension and other postemployment benefits (OPEB) obligation and the lack of a plan to sufficiently address this obligation; and

- Strong institutional framework score.

The county is sparsely populated, with more than half its year-round population based in its single incorporated community (Mammoth Lakes), and its economy is heavily concentrated in the tourism and recreation sector due to its abundance of national and state protected lands. Given this focus on tourism, approximately 65% of the county's housing stock is second homes, which leads to an extremely high market value per capita, but we believe that the inherent risk of a concentrated economy offsets this strength to some extent. Increasing tax revenues and conservative budgeting practices have allowed the county to rapidly increase its available fund balance to 37.3% of general fund expenditures in fiscal 2017, from 15.0% in fiscal 2015. While the county's debt burden is quite low, even including the series 2018A COPs, we view its pension and OPEB burden as large.

Adequate economy

We consider Mono County's economy adequate. The county has an estimated population of 13,747. The county has a projected per capita effective buying income of 104.3% of the national level and per capita market value of $445,914. Overall, the county's market value grew by 2.7% over the past year to $6.1 billion in 2019. Weakening Mono County's economy is a concentrated employment base, with a single sector accounting for more than 30% of total county employment. Its unemployment rate was 4.4% in 2017.

Mono County is in east-central California, within the Sierra-Nevada mountain range and bordering Nevada to the east. Its population has been largely stable in recent years, growing by only 3.6% cumulatively from 2010-2017, although this includes a 4.7% cumulative decline since 2012. More than half the county's permanent population is in Mammoth Lakes--the county's only incorporated city. The economy is highly concentrated in tourism and recreation, reflecting the county's mountainous terrain and natural beauty. The county attracts approximately 1.5 million visitors annually, and about 65% of all homes are second homes, which contributes to the county's extremely high market value per capita. On the other hand, approximately 38% of countywide employment is associated with the tourism and recreation sector, which we view as concentrated and therefore a credit risk.

Approximately 94% of the county is public land administered by federal, state, and local governments. Most of this public land is not subject to property taxation, although the Los Angeles Dept. of Water and Power, which sources water from the county, does pay property taxes on the land it owns under state law, and is the county's largest taxpayer, accounting for 5.2% of total assessed value (AV) in fiscal 2017. The county's property tax base has been somewhat volatile across the current economic cycle, declining 15.9% cumulatively from fiscal 2010-2014, and subsequently increasing by 2.3% annually through fiscal 2019; the county's AV has not yet recaptured its fiscal 2010 peak.

Strong management

We view the county's management as strong, with good financial policies and practices under our FMA methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

Key policies and practices include:

- A well-developed and reliable process for developing budgetary assumptions that is based on a five-year trend analysis of revenues and expenditures, review of countywide economic development activity, and consultations with state sources of financial information; we note that because sales taxes are not a major source of revenue for the county, the county does not use an independent forecaster for sales trends;
- Semi-annual budgetary reviews and amendments by the board of supervisors;
- A lack of formal long-term financial planning;
- A five-year rolling capital improvement plan that identifies funding sources for projects;
- A formal investment policy that we do not consider aggressive, with quarterly reporting to the board on holdings and performance;
- A formal debt management policy that covers most, but not all, of the key areas we identify in our FMA methodology; and
- A formal policy requiring general reserves to be maintained at between 5%-15% of average general fund expenditures in order to accommodate extraordinary or unanticipated expenditures. The county dipped into this reserve in fiscal years 2011 and 2015, but has since replenished the reserve; in fiscal 2017, the county established an economic stabilization reserve, but does not have a targeted size for this reserve.

Strong budgetary performance

Mono County's budgetary performance is strong, in our opinion. The county had operating surpluses of 7.1% of expenditures in the general fund and of 10.0% across all governmental funds in fiscal 2017. Our assessment accounts for the fact that we expect budgetary results could deteriorate somewhat from 2017 results in the near term. For our analysis of the county's budgetary performance, we have adjusted general fund revenues to include recurring transfers in from the realignment fund and from nonmajor governmental funds. We have also adjusted general fund expenditures to include recurring transfers out to subsidize the road fund and for debt service. We note that general fund revenues and expenditures declined significantly in fiscal 2016, because the county reclassified certain programmatic activities as special revenue funds in that year, but we do not believe that this reclassification reflects a material shift in budgetary performance.

The county has recorded large surpluses at the general fund and total governmental funds levels since fiscal 2015, largely due to increasing tax revenues and conservative budgeting practices. However, the county's fiscal 2018 unaudited actuals show a moderate general fund deficit of 1.6% of expenditures as rising costs--particularly for public safety--outpaced revenue growth. The fiscal 2019 budget shows a larger deficit of 4.0% of expenditures. However, the county consistently achieves strongly favorable budget-to-actual variances in recent years, primarily by retaining unfilled staff vacancies, so we expect that its actual general fund performance for fiscal 2019 will be much closer to balanced.

Property taxes are the county's primary source of general fund revenue, accounting for about 61% of the total in fiscal 2019. Intergovernmental revenues are the second-largest source (14% of the total in fiscal 2017); these include payments in lieu of taxes from the federal government that are appropriated annually and therefore potentially volatile, and the county mitigates this potential volatility by not budgeting these payments until the subsequent fiscal year.

Transient occupancy (lodging) taxes are the county's third-largest source of general fund revenues, and have been volatile across the current economy cycle--declining significantly following the Great Recession, and growing rapidly since fiscal 2013.

Very strong budgetary flexibility

Mono County's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2017 of 37% of operating expenditures, or $12.1 million.

Positive budgetary performance in recent years has allowed the county to increase its available fund balance rapidly, to 37.3% of adjusted general fund expenditures in fiscal 2017, from 15.0% in fiscal 2015. Accounting for the county's moderate unaudited general fund deficit in fiscal 2018 and full budgeted deficit in fiscal 2019, the county's available fund balance would only decline to 27.3% of general fund expenditures, which we would still consider very strong. As mentioned above, we do not expect the county to realize its full budgeted deficit in fiscal 2019, so believe that its available fund balance will remain at or near 30% of general fund expenditures over the near term.

We note that general fund assets include a $660,000 advance receivable from the solid waste enterprise fund (as of fiscal 2017), and that the solid waste has a negative net position. We understand that the solid waste fund's negative net position is due to its recognition of forthcoming landfill closure costs as liability, but that the fund has maintained positive operations and is building up fund balances to pay for the closure costs as they come due. Management indicates that the solid waste fund is repaying the advance from the general fund, which will be fully repaid in fiscal 2021. Accordingly, we do not believe that the solid waste fund represents a financial risk to the county.

Very strong liquidity

In our opinion, Mono County's liquidity is very strong, with total government available cash at 72.7% of total governmental fund expenditures and 38.4x governmental debt service in 2017. In our view, the county has satisfactory access to external liquidity if necessary. The county's investments are primarily in U.S. Agencies, the state Local Agency Investment Fund, collateralized deposits and certificates of deposits, and highly rated corporate notes and municipal bonds. We do not consider the county's investment portfolio to be aggressive.

In 2012, the county issued privately placed pension obligation bonds; after reviewing the documentation for this debt, we believe that creditors have the ability to accelerate the repayment of existing principal upon the occurrence of an event of default, which we believe represents a contingent liquidity risk to the county. However, given that the principal outstanding on this debt is less than $700,000 (as of the beginning of fiscal 2019), relative to county cash and investments of roughly $34 million (as of the end of fiscal 2017), we do not consider this liquidity risk to be material.

Adequate debt and contingent liability profile

In our view, Mono County's debt and contingent liability profile is adequate. Total governmental fund debt service is 1.9% of total governmental fund expenditures, and net direct debt is 40.9% of total governmental fund revenue. Overall net debt is low at 1.6% of market value, which is in our view a credit strength. The county does not have plans to issue additional debt.

In our opinion, a credit weakness is Mono County's large pension and OPEB obligation. The county participates in two multiple-employer, defined-benefit pension plans administered by the California Public Employees Retirement System

(CalPERS): the cost-sharing Safety Plan for its public safety employees, and the agent Miscellaneous Plan for its other employees. As of fiscal 2017, the Miscellaneous Plan accounted for 63% of the county's combined net pension liability of $47.7 million and had a funded ratio of 69%, while the Safety Plan had a funded ratio of 74%. We consider these plans under-funded. In fiscal 2017, the county's pension carrying charge accounted for 9.3% of total governmental funds expenditures, which we consider elevated. We believe that the county has not yet developed a robust plan to address CalPERS contribution rates that will increase significantly in the coming years due to revised actuarial assumptions.

The county's OPEBs consist of a single-employer, defined benefit health care plan for employees hired before the beginning of 2002. In 2007, the county established an irrevocable trust to fund these benefits, and since then has made regular contributions to this trust--in addition to its OPEB pay-as-you-go costs--leading to an OPEB funded ratio of 42% as of the beginning of 2016. The county intends to continue making contributions of about $1 million annually until the trust is fully funded. Including these trust contributions, the county's OPEB carrying charge was 6.6% of total governmental funds expenditures in fiscal 2017, leading to a combined pension and OPEB charge of 15.9% of total governmental funds expenditures, which we consider high.

Strong institutional framework

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

Outlook

The stable outlook reflects our expectation that the county will maintain adequate to strong budgetary performance, strong to very strong budgetary flexibility, and continue to make progress in funding its OPEB liability. The outlook also reflects our view that the county's economic concentration in tourism will continue to partially offset the economic strength suggested by its extremely high market value per capita. Accordingly, we do not expect to change the rating within the next two years.

Upside scenario

We could raise the rating if the county significantly increases its available fund balance while also making rapid progress in addressing its pension and OPEB liabilities. We could also raise the rating if the county's economy diversifies significantly, although we do not view this as likely.

Downside scenario

We could lower the rating if a downturn in the tourism sector, or unanticipated capital needs or rising pension costs, were to prompt the county to significantly reduce its available fund balance.

- Related ResearchS&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- Local Government Pension And Other Postemployment Benefits Analysis: A Closer Look, Nov.8, 2017
- 2018 Update Of Institutional Framework For U.S. Local Governments