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CREDIT OPINION
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Update

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Mono County, CA

Rating Update - Moody's Assigns an Initial Aa3 Issuer Rating to Mono County, CA

Summary Rating Rationale

Moody's Investors Service has assigned an initial Aa3 Issuer Rating to Mono County, CA. The Aa3 rating reflects the county's growing tax base with a local economy concentrated in tourism, above average wealth levels, improved finances following reductions in reserves during the recession and low debt levels with potential future borrowing. The issuer rating incorporates credit factors that would be present in the county's general obligation bond rating if the county had outstanding general obligation debt.

Credit Strengths

- Resumed tax base growth emerging from the recession
- Above average socioeconomic levels
- Negligible direct debt burden

Credit Challenges

- Assessed valuation that has yet to reach its pre recession peak
- Concentration of local economy in tourism, leading to more volatile revenue streams
- Increasing pension costs

Rating Outlook

Rating outlooks are typically not assigned to issuers with this amount of debt outstanding.

Factors that Could Lead to an Upgrade

- Sustained and substantial growth in assessed valuation
- Sustained strengthening in reserves and liquidity

Factors that Could Lead to a Downgrade

- Deterioration in financial position
- Substantial declines in taxable values

Key Indicators

Exhibit 1

Mono County	2011	2012	2013	2014	2015
Economy/Tax Base					
Total Full Value ($000)	$ 5,514,666	$ 5,378,045	$ 5,318,660	$ 5,294,130	$ 5,383,414
Full Value Per Capita	$ 389,014	$ 383,379	$ 366,981	$ 374,329	$ 366,343
Median Family Income (% of US Median)	121.4%	113.2%	111.6%	112.3%	112.3%
Finances					
Operating Revenue ($000)	$ 40,071	$ 40,540	$ 39,208	$ 40,964	$ 41,788
Fund Balance as a % of Revenues	21.7%	18.1%	16.4%	11.9%	14.0%
Cash Balance as a % of Revenues	13.8%	17.1%	16.2%	18.2%	30.0%
Debt/Pensions					
Net Direct Debt ($000)	$ 3,798	$ 7,669	$ 6,978	$ 6,231	$ 5,430
Net Direct Debt / Operating Revenues (x)	0.1x	0.2x	0.2x	0.2x	0.1x
Net Direct Debt / Full Value (%)	0.1%	0.1%	0.1%	0.1%	0.1%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	N/A	2.2x	2.4x	2.4x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	N/A	1.6%	1.9%	1.8%

Source: Mono County and Moody's Investors Service

Detailed Rating Considerations

Economy and Tax Base: Local Economy with Substantial Concentration in Tourism Demonstrates Renewed Growth Emerging from the Recession

Located on the eastern side of the Sierra Nevada, between Yosemite National Park and Nevada, Mono County includes both Mono and June lakes as well as the ski resort town of Mammoth Lakes, offering residents and visitors a variety of recreational activities and natural splendor. The county also has an agricultural tradition with a variety of locally grown products. The local economy is heavily concentrated in tourism, leading to potentially more volatile revenue streams as well as exposure to future weather variability as snowfall levels are correlated with skier visits during the winter months.

Following four years of consecutive declines from fiscal 2011 through 2014, county assessed valuations have now resumed growth emerging from the recession, increasing an average of 2.13% annually over the last three years. Now exceeding $5.6 billion in fiscal 2017, the county's assessed valuations have yet to return to a pre recession peak of $5.9 billion in fiscal 2010, although future increases are anticipated supported by increasing home values, Prop. 8 reassessments and improved economic activity. Property tax revenues account for over 50% of general fund revenues, and increases in assessed valuation have supported improved revenue growth.

Socioeconomic levels are favorable, with assessed valuation per capita equal to $382,845 and an MFI equal to 112.3% of the US median. The county's median home sale price as of September 2016 equaled $216,000, and while demonstrating volatility, has generally been rising coming out of the recession. The county's population and employment continue to expand, with an unemployment rate of 5.2% as of August 2016 comparing favorably with state (5.6%) and national figures of 5.0% for the same time period.

While constituting less than 10% of general fund revenues, transient occupancy taxes ("TOT") represent an important revenue stream and provide a good indication of the level of visitors and economic activity in the county, and in fiscal 2016, these receipts reached an all-time high of over $3 million. Receipts have demonstrated historical volatility, however recent growth has been strong, with collections increasing an average of close to 7.8% annually over the past three years. Although the county's economy retains exposure to variations in tourism, second home ownership and weather, continued, moderate growth is expected with maintenance of favorable wealth levels.

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Financial Operations and Reserves: Finances Demonstrate Improvement Emerging from the Recession Supported by Reserve Policies and Establishment of Economic Stabilization Fund

Following five years of consecutive operating deficits during the recession, the county's finances demonstrate improved results supported by resumed revenue growth, tightened expenditure controls and the establishment of a targeted reserve levels. In addition to a policy of retaining an emergency and catastrophic reserve of between at least 5% and 15%, the county has also established an economic stabilization fund currently equal to $1.2 million. Higher reserve levels should help safeguard against the previous expenditure reductions that were required during the recession, including furlough days and no step increases for seven years.

In fiscal 2015, available operating fund balance approached $5.9 million or 14% of revenues. While available general fund reserves have increased from a low of $4.8 million (11.2%) in fiscal 2014, this remains below a previous high of close to $11.9 million (27.6%) attained in fiscal 2010.

Unaudited results for fiscal 2016 demonstrate a second consecutive operating surplus of close to $4 million, supporting by increased property and TOT collections as well as stability in state and federal funding levels. Going forward, the county's fiscal 2017 budget is based upon conservative assumptions including budgeted TOT revenues of less than $3 million, essentially flat with fiscal 2016 collections. Positively, however, an improved economy has provided important budgetary relief, and as an example, the county was able to award a 2% salary increase to employees in January. The fiscal 2017 budget also increases general fund support of road projects from $600,000 to $800,000, includes allocations for vehicle purchases, utilizes $203,000 of accumulated fines and penalties restricted for criminal facility capital projects for these purposes, and allocates $90,000 for expenditures on a financial system. The county is also now reconciling previous general fund payments for fire refuge removal costs and processing home insurance reimbursements that are expected to be collected in the current fiscal year.

LIQUIDITY

In tandem with increasing reserve levels, the county's liquidity has also improved, with net cash balances reaching $12.5 million in fiscal 2015 or a favorable 30% of revenues. Going forward, we expect that the county's liquidity position will remain in line with similarly rated credits nationally.

Debt and Pensions: Extremely Low Direct Net Debt Burden with Manageable Pension and OPEB Obligations

The county's net direct debt burden is negligible at 0.1% of assessed valuation. Outstanding governmental bonds are limited to $2.16 million of taxable pension obligation bonds ("POBs") issued in 2012. The POBs were issued to refund the side fund created by PERS when the county's safety units were placed in the CalPERS multi-employer risk pool. At that time, side funds were created to equalize contribution rates among the risk pool employers. The POB's partially refunded the existing unfunded accrued liability. Without the POBs, the county's safety actuarial contribution rates would have been much higher. As a result, the refunding is expected to save the County approximately $528,000 over the 12 year life of the bonds.

Of note, the county is currently contemplating alternatives for the development of a new government center in Mammoth Lakes. The county currently leases approximately 30,000 square feet in two separate buildings under two lease agreements that expire over the next three years. Various options are being considered, including renovation of the county's existing leased space as well as construction of a new facility that would be jointly financed and occupied by both the county and the Town of Mammoth Lakes. While project costs and financing alternatives are still being developed, construction costs of a new government center are currently estimated at $30 million. Even if this obligation were included, the county's debt ratios would remain quite modest, with a direct net debt burden as a percent of assessed valuation of 0.63% and net direct debt to operating revenues of 0.8 times; figures that would remain comparable to those of counties nationally at a similar rating level.

DEBT STRUCTURE

All of the county's outstanding debt consists of fixed-rate obligations with rapid amortization. The Series 2012 POBS, for example, are fully repaid by 2023. The county's low direct debt burden and rapid amortization provide substantial flexibility as the county contemplates potential future borrowing.

DEBT-RELATED DERIVATIVES

The county has no debt related derivatives.

PENSIONS AND OPEB

County employees are eligible to participate in the county's multiple-employer, defined benefit plans that are part of the California Public Employees Retirement System (CalPERS). The county's three-year adjusted net pension liability (ANPL) is moderate at 1.77% of AV and 2.4 times operating revenues. Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities. The adjustments are not intended to replace the county's reported liability information, but to improve comparability with other rated entities.

County officials expect pension costs to rise over the next 3-5 years with the state's adjustments to reduced investment earnings assumptions and then level off somewhat as a greater proportion of employees are covered under new agreements with lower benefit costs.

The county also offers a single-employer, postemployment healthcare plan. OPEB obligations are funded on a pay-as-you-go basis, and favorably, the county has continued to overfund its annual required contribution. In fiscal 2015, for example, the county contributed $2.58 million (172%) of its $1.5 million annual OPEB cost. As of January 1, 2014, the most recent actuarial valuation date, the county's unfunded accrued liability approached $13.97 million, equivalent to a funded ratio of 45.99%. Additionally, the county expects to eliminate retiree health benefits completely over the next 5-8 years as employees are moved to a 401(a) Plan under, which the county will match up to 3% of employee contributions. This initiative will help reduce uncertainty related to the costs of future post retirement benefits. In fiscal 2015, the county's combined pension and OPEB contributions totaled $5.1 million or 13% of general fund revenues.

Management and Governance

The county is governed by a five-member, elected Board of Supervisors with overlapping terms. Positively, the county has recently filled a number of management vacancies with experienced staff members now in place. Challenges faced during the recession are evident in the county's five-year average of operating revenues as a percent of operating expenditures of 0.97 times, although this figure is expected to improve somewhat going forward.

California counties have an institutional framework score of “A” or moderate. Primary sources of unrestricted revenues come from property tax and sales tax. Service charges and state aid make up significant sources of county revenues as well, however are usually restricted to specific purposes. Property taxes are fairly predictable, given the states constitutional formula, known as “Prop. 13”, while sales taxes are extremely sensitive, either to the local economy or the states financial position. Expenditure flexibility is similarly limited, although somewhat less so than revenues.

Legal Security

The issuer rating assumes the same legal security available to general obligation bonds were they outstanding.

Use of Proceeds

N/A

Obligor Profile

Located on the eastern side of the Sierra Nevada, between Yosemite National Park and Nevada, Mono County includes both Mono and June lakes as well as the ski resort town of Mammoth Lakes, offering residents and visitors a variety of recreational activities and natural splendor. The county also has an agricultural tradition with a variety of locally grown products. The local economy is heavily concentrated in tourism. The county's current population is estimated at 14,695 and continues to grow. The State of California, Department of Finance Demographic Research Unit projects that the county's population will reach 16,828 by 2045.

Methodology

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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