

Town of Mammoth on the verge of being bankrupt

By Norimitsu Onishi, New York Times

MAMMOTH LAKES – It was a seemingly perfect day at this ski resort town high in the Sierra Nevada last week, one that could have redeemed the season's poor snowfall under brighter circumstances. Families here on spring break were enjoying the slopes or shopping at the luxury outlet mall. Some stocked up at the Vons supermarket for dinner, while others braved the half-hour waits at the town's popular restaurants.

But despite the appearance of prosperity, the government of Mammoth Lakes is considering bankruptcy because of its inability to pay a \$43 million legal judgment in a development dispute dating back to 1997. After entering a mediation process under a new California law, the town now faces a 90-day deadline to reach an agreement with its creditors, raising doubts about the future of this longtime getaway for residents of San Francisco and Los Angeles.

Town officials say they hope that mediation will allow them to avoid filing for bankruptcy. But so far, the developer that won the lawsuit, Mammoth Lakes Land Acquisition, has refused to participate in the mediation process.

Now, amid rising anxiety and recriminations, this resort town, like other more modest municipalities across the nation, is facing sharp budget cuts. They could affect not only services to full-time residents, but also ones like free bus shuttles that cater to tourists.

"We're afraid if the services drop too low, people will choose not to come, and then it becomes a downward spiral," Jo Bacon, the mayor, said in an interview at the Java Joint, a cafe in a 1970s shopping mall that also houses the local government.

Mammoth Lakes, a town of about 8,200 residents and a budget of \$17 million, has become the second municipality after Stockton to use a new state law that requires local governments to hire a third-party mediator to negotiate with creditors before declaring Chapter 9. The union-backed law made it harder for local governments to file for bankruptcy and was intended to protect public employees in cities with large work forces, like Stockton, which entered the mediation process in February.

In Mammoth Lakes's case, its problems are rooted in the 1997 deal with Mammoth Lakes Land Acquisition. The town gave the developer the rights to build a hotel, residential and retail project near the local airport in exchange for making airport improvements. But the town backed out of the deal after the Federal Aviation Administration, which provided Mammoth Lakes with grants to improve the airport, objected to development nearby.

The developer sued in 2006 for breach of contract and was eventually awarded a \$30 million judgment. The town exhausted its legal appeals last year, and the amount has grown to \$43 million.

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