South County Facility -- Comparison of Available Options

Executive Summary

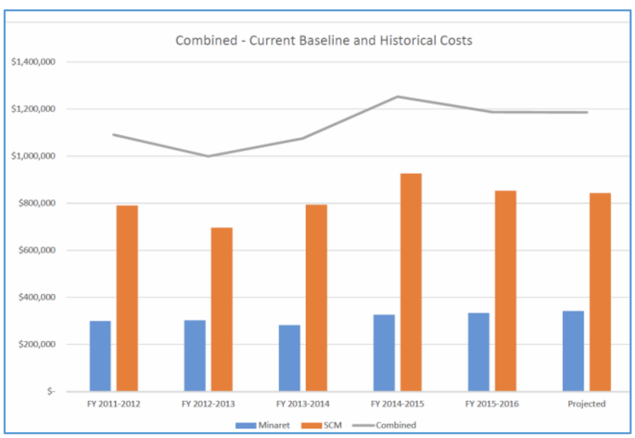
For over 30 years, Mono County has occupied leased space in Mammoth Lakes where it provides County services to residents living in the South part of the County, including residents within the Town of Mammoth Lakes.

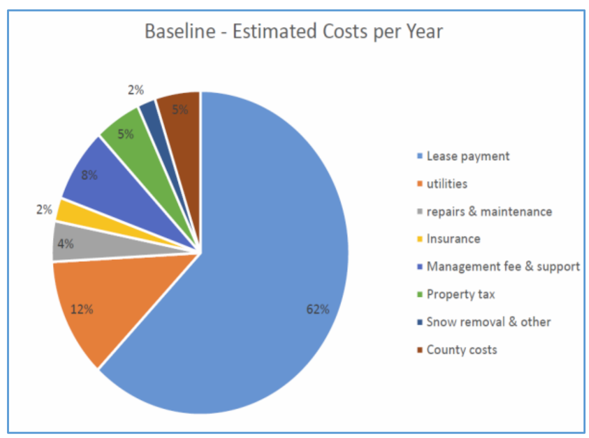
The County's current locations are within the Minaret Mall (Vons) and the Sierra Center Mall (SCM), both in the Old Mammoth area of Mammoth. Departments in these locations include Public Health, Social Services, Behavioral Health, Community Development, District Attorney, Probation, County Administration, Board of Supervisors and IT. Certain functions of the Clerk's Office and Tax Collector's office are also provided in conjunction with the above offices.

In 2006, the County acquired a portion of a parcel in Mammoth intended to house a future multi-agency Civic Center. Individual lots within this parcel are now owned by the County, the Town, the Southern Mono Healthcare District (Mammoth Hospital), and the Judicial Council of California. Since acquisition in 2006, the Hospital, the Court, and the Town have each developed infrastructure on the property.

Current Baseline

The County's lease at the SCM will expire in October of 2019, and the lease at Minaret Mall expires September 2021. The County spends approximately $1.12m per year for rent and operating costs for these spaces. This represents the 'baseline' for providing space for these services in Mammoth:





With leases coming up for renewal, the County has worked to analyze the costs and benefits associated with continued leasing versus constructing a facility as part of the Civic Center, with comparison to the current baseline.

In response to apparent Board concerns, the complex cost-benefit analysis was distilled to a simple cash-flow analysis, which looks specifically at the annual costs of each option.

Un-quantifiable Factors and Risks

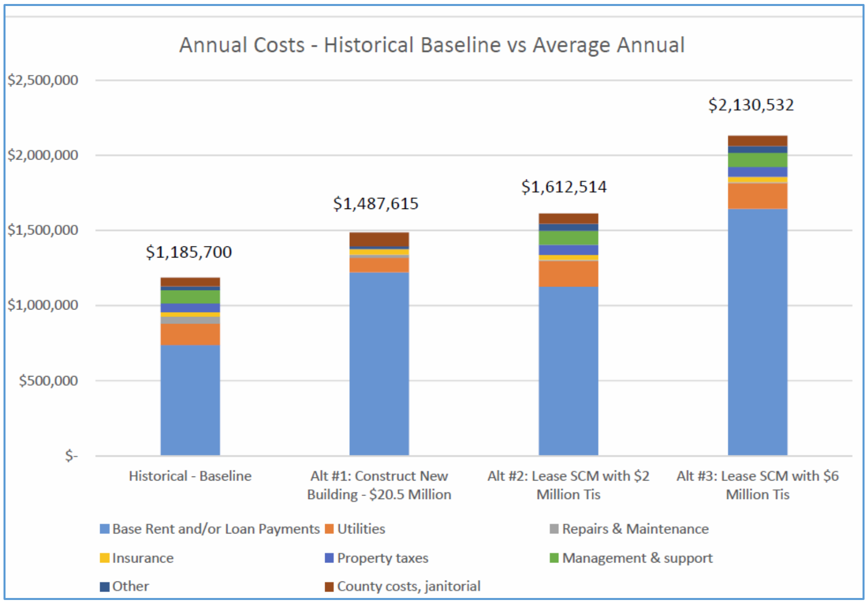
Although a cash-flow analysis is a useful approach and a critical budgetary consideration, it is problematic because there are many relevant factors that do not get included. One is that SCM (where the County would theoretically consolidate following expiration of Minaret Mall lease) is a 35 year-old building today, and will not provide the same quality of service and experience as a brand new, purpose built, net-zero energy building. Another is that the benefit of locating in a Civic Center, proximity to other agencies and compliance with the Town's visioning and planning, is lost. A third is that the asset value of ownership is not included, although it is the most significant financial consideration between leasing and owning. Each of these factors increase the value of a build option but do not show up in a cash-flow analysis.

There are also un-quantifiable factors that favor leasing, and do not show up in a cash-flow analysis. One is the risk associated with building a structure--the estimates may be wrong, there may be cost overruns. Although this risk exists in a lease (tenant improvements), it is much less. A second is the risk of committing to a building and location for 35 years. Should the County's need for office space in Mammoth change or decrease significantly, there would be no opportunity to walk away. These factors favor a lease option, but are not reflected in a cash-flow analysis.

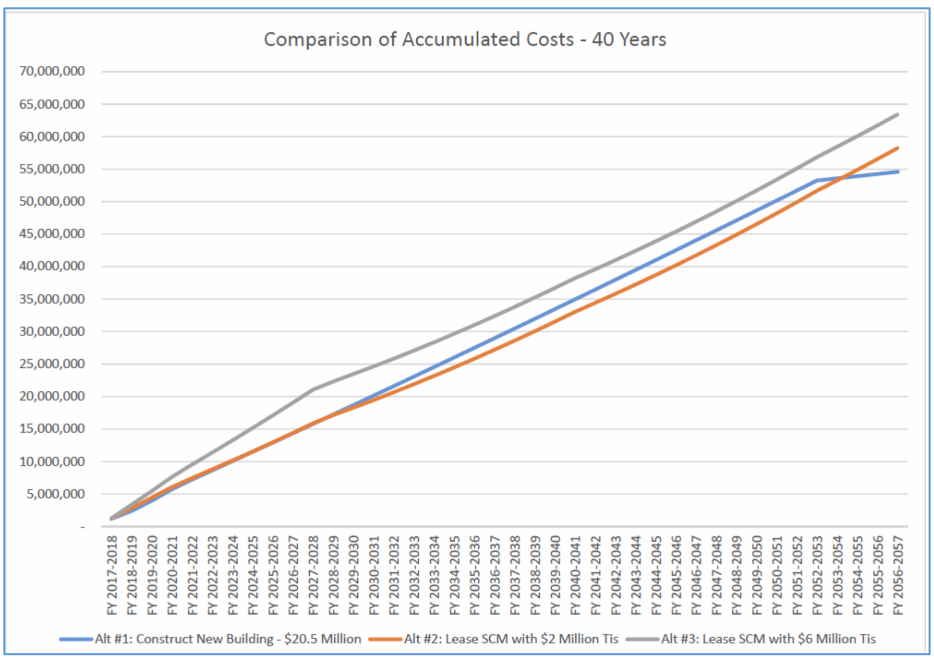
Comparison of 3 Alternatives

In generating the cash-flow analysis, the County compared 3 scenarios, and projected costs over 40 years.

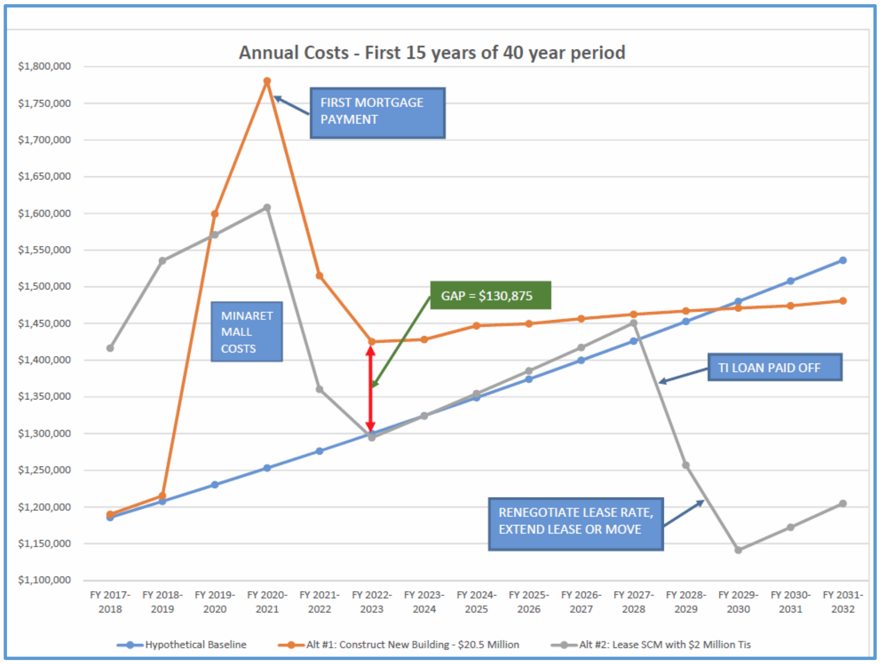
1. **Construct and Finance a new $20.5m structure at Civic Center.**
2. **Enter lease at SCM under proposed terms with a $2m tenant improvement project (this is considered the bare minimum TI to relocate County Departments into the SCM)**
3. **Enter lease at SCM under proposed terms with a $6m tenant improvement project (this is considered a comprehensive remodel that would provide improved space and circulation efficiencies for new and existing Departments at SCM)**



With annual cash-flows averaged over 40 years, the cost of constructing a new facility emerges as the least expensive option.



Looking at the total costs over a 40 year period, with the build option dropping off significantly after year 35.



Looking closely at annual cash flow beginning in Year 1, existing leases and the need for paying rent in two locations, or paying rent and mortgage at the same time, create spikes. Once those anomalies have worked out, projections show the leasing at SCM with $2m improvements being the least expensive option, costing the County approximately $130,000 less per year. This difference decreases every year until the debt for TIs is paid off and the lease is renewed for an ***assumed 85%*** of then-current rate. This causes a distinct decrease in this scenario every 12 years, which may or may not materialize.

The Question for the Board of Supervisors

In the weeks to come, the Board must consider the different options and render a decision on which course of action will most benefit the taxpayers and citizens of Mono County. This is not a straightforward financial question. Not only are there numerous 'un-quantifiable' factors that must be considered, but financial considerations are greatly influenced by whether a Supervisor looks at a 5, 10, or 40 year timeframe.

For the complete set of financial charts, summaries and details, please visit:

http://monocounty.ca.gov/cao/page/south-county-facility