TOWN COUNCIL STAFF REPORT

Title: Consider the request to conduct a financial analysis of the Mammoth Crossing Development to evaluate the extent of the feasibility gap of the project

Meeting Date: April 1, 2026

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RECOMMENDATION:

Authorize staff to begin working with the applicant team and qualified financial consultants on an analysis to determine the extent of the feasibility gap of the Mammoth Crossing project, provided that the applicant bear 100% of the costs of the financial review and that the results of the analysis do not represent a formal decision of any kind or a commitment by the Town Council to enter into negotiations for a development agreement.

BACKGROUND:

A Concept Review Application for the North Village Mammoth Crossing sites was submitted to the Town Planning Division in September 2025, and the Town Council received a presentation on the Project in March 2026.[1] Concept review is typically used to provide applicants with feedback on preliminary project plans and designs; however, in this case due to the complexity of the project and the significant investment to develop the project, the applicant is also requesting feedback on a potential development agreement that includes a revenue sharing component. Revenue sharing is where through a development agreement, or a separate hotel development incentive agreement, a tax collecting entity (e.g., the Town) agrees to allow the developer of a hotel project to retain an established percentage of taxes owed (e.g., TOT) for a specified period of time in order to reduce or eliminate a financing gap.

The preliminary project description includes the following components:

- Development of a mixed-use project on the NW, SW, and SE corners of Minaret Road and Main Street that provides a branded hotel, conference center, retail plaza, branded residences, and public parking.
- Site 1 (NW corner) is proposed to be a JW Marriott hotel with up to 196 "keys" and an approximately 28,000 sf conference center.
- Site 2 (SW corner) is proposed to include a retail plaza (potential home of Mammoth Brewing, neighborhood general store, etc.) and approximately 85 branded residences.

[1] Meeting materials from the March 4, 2026 Town Council presentation: https://pub-townofmammothlakes.escribemeetings.com/Meeting.aspx?Id=6556d6ca-94c6-4182-a106-44f3accd6d09&Agenda=Agenda&lang=English&Item=34&Tab=attachments

- Site 3 (SE corner) is proposed to be developed with approximately 100 branded residences and public parking.

Development Agreements

Development agreements (DA) are contracts entered into by a local government and a property owner or developer to expressly define a development project's rules, regulations, commitments, and policies for a specified period of time. These agreements can specify various elements of the development process including, but not limited to, phasing of a larger master-planned community, tax-sharing for commercial development, or critical infrastructure commitments.

Chapter 17.104 of the Town's Municipal Code establishes procedures and requirements for the review and consideration of DAs, in compliance with Government Code Section 65864 et seq. An application for a DA requires a public hearing and recommendation by the Planning and Economic Development Commission (PEDC) followed by a public hearing before the Town Council after which the Town Council must vote to approve, conditionally approve, or deny the DA.

Pursuant to Municipal Code Chapter 17.104, the Town Council may approve a DA only if the following findings can be made:

1. That the agreement is consistent with the goals, policies, general land uses and programs specified in the Town's general plan and any applicable specific plan;
2. That the agreement and accompanying development plan are compatible with the uses authorized in, and the performance and development standards prescribed for, the zone classification in which the subject property is located;
3. That the agreement is in conformity with and will promote public convenience, general welfare, and good land use and development practices;
4. The development agreement shall be shown to be of greater benefit to the community than development under present zoning; and
5. The term or duration of the agreement has a commensurate relationship to the benefits provided.

The Town Council is never under an obligation to approve a DA, even if the findings set forth above can be made. The Council has the authority to decide whether or not to enter into a DA, and to decide what terms it wishes to insist upon or reject as part of DA negotiations.

Revenue Sharing

The Town has been approached several times by hotel project developers to consider a DA with tax sharing components as a part of the proposal. To become better educated on the elements of a tax sharing deal, the Town previously contracted with Kosmont Companies, Inc in 2019 to provide a presentation to the Town Council, the PEDC, and the public. The presentation was held on November 20, 2019, at which Kosmont gave a detailed presentation on structuring hospitality tax sharing agreements and answered questions.[2]

[2] The November 20, 2019 Kosmont presentation slide deck on tax sharing agreements is available here: https://pub-townofmammothlakes.escribemeetings.com/filestream.ashx?documentid=6377

A summary of the key points from the presentation are included below:

- Early revenue is important for hotel projects due to higher financial risk than other project types.
    - Revenue sharing agreements can provide hotels a significant boost to Debt Coverage Service Ratio (DCSR), cashflow, and initial equity returns.
    - Early TOT sharing can drive financial feasibility, help a hotel obtain superior financing terms, and enhance leveraged return on equity.
- Tax sharing agreements may be appropriate to bridge financial feasibility gaps for:
    - Projects that are expected to be significant revenue generators.
    - Catalyst projects that may drive additional private investment.
    - Projects that further public policy goals.
- A revenue sharing pledge <u>should</u>:
    - Facilitate the operation of a project that would not occur but for the pledge.
    - Be a measured response to established financial need.
    - Benefit the Town.
- A revenue sharing pledge <u>should not</u>:
    - Facilitate ongoing operation of a project that is not sustainable over the long-term without support.
    - Make up for a bad deal.
    - Unnecessarily expose the Town to excessive risk.
- There are steps the Town can take to protect itself from risks associated with tax sharing agreements:
    - Limit revenue pledge until commencement of hotel operations.
    - Make amount of pledge a function of hotel performance.
    - Condition pledge with protective financial covenants.
- Many ways to measure and limit a tax sharing pledge
    - Measure by percentage of revenue, a stated amount, or a "waterfall"
    - Limit by using "floor" or "ceiling," fixed number of years, termination clauses, prescribed values
    - TOT funded debt service reserves
- Other considerations:
    - Public benefits of the project
    - Existing hotel performance / market projections
    - Setting a precedent, equity considerations
    - Minimum project thresholds / guidelines
    - Leveraging net incremental revenue through a special district (TIF) to facilitate other public policy goals

ANALYSIS:

The proposed financial analysis is intended to provide the Town Council, staff, and the applicant team with adequate information on the extent of the feasibility gap of the Mammoth Crossing project, which would then be used to inform decision makers and the applicant team on whether to proceed with negotiating a development agreement on the project, and the project as a whole. The feasibility gap is the delta between the value of the hotel project at the commencement of operations and the cost to build the hotel project, with the cost to build often exceeding the value of the hotel on day 1. The financial analysis will determine what the estimated gap is, provide potential revenue sharing structures that outline the term and financial return on the project, and provide general financial estimates of the project (average daily rate, estimated occupancy, TOT revenue, etc.). **Preparation of the financial analysis is not binding and does not commit the Town to moving forward with a development agreement and/or other tax sharing agreement. It is simply meant to be informative.**

If the Council does direct staff to work with the applicant team on the financial analysis, staff would then solicit proposals from qualified financial consultants to assist staff with the work. The selected consultant would then work directly with the applicant's financial consultant to prepare the study. The Town would be reimbursed for the cost of the analysis by the applicant team regardless of the outcome of the analysis.

Following the conclusion of the financial analysis work, the results of the study would then be brought back to the Town Council for a discussion related to what the feasibility gap is and whether there was interest from the Town Council in considering a revenue sharing agreement. At that point, and dependent on what the extent of the gap is and whether Town Council is interested in negotiating and pursuing a revenue sharing agreement, the Town Council would be tasked with deciding whether to formally enter into negotiations on a development agreement with the developer. As noted above, negotiating a development agreement in no way commits the Town Council to approving the agreement.

OPTIONS ANALYSIS

Option 1: Authorize staff to begin working with the applicant team and qualified financial consultants on an analysis to determine the extent of the feasibility gap of the Mammoth Crossing project, provided that the applicant bear 100% of the costs of the financial review and that the results of the analysis do not represent a formal decision of any kind or a commitment by the Town Council to enter into negotiations for a development agreement.

Option 2: Not authorize the financial analysis.

Under this scenario, the applicant would need to determine whether they would still proceed with an entitlement application and development agreement application.

FINANCIAL CONSIDERATIONS:

Staff time dedicated to this application is funded through the Concept Review application deposit, which must be replenished on an ongoing basis as costs related to staff time and attorney review expenses are incurred.

ENVIRONMENTAL CONSIDERATIONS:

There are no environmental considerations related to the discussion of whether to proceed with a financial analysis to determine the feasibility gap of the Project.

For the larger overall project, an Environmental Impact Report was prepared for the Mammoth Crossing Project and was adopted and certified in 2009. As part of the project approval, the Town Council adopted a Statement of Overriding Considerations because the project would result in significant and unavoidable impacts related to aesthetics, air quality, and noise. Any future project at the Mammoth Crossing sites will be reviewed against the 2009 certified EIR. If a new proposal omits or substantially changes features that were part of the certified project description, particularly those the Town relied on as community benefits to justify approving the project despite significant unavoidable impacts, the legal approvals associated with the EIR may no longer be valid, and preparation of a new CEQA document would be required

LEGAL CONSIDERATIONS:

The Town Attorney has provided initial input on the framework for a development agreement that includes a revenue sharing component. In the event that the applicant submits a development agreement application, extensive consultation with the Town Attorney will be required throughout the negotiation process to ensure that the development agreement furthers the Town's interests and that the Town is legally protected.

Attachments:

1. Letter from the applicant's legal counsel requesting the financial analysis.