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FISCAL IMPACT REPORT

ORIGINAL DATE

SPONSOR Cisneros **LAST UPDATED** 2/16/15 **HB** _____

SHORT TITLE Taos Ski Valley Bond Sale **SB** 556

ANALYST Graeser

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY15	FY16	FY17	FY18	FY19		
	**	**	**	**	Recurring	General Fund
	**	**	**	**	Recurring	TSV TIDD
	**	**	**	**	Recurring	Taos County
	**	**	**	**	Recurring	Taos Ski Valley Village

(Parenthesis () indicate revenue decreases

** Based on the application plan, all governments participating in this TIDD will be revenue positive for all periods of the plan. See “Fiscal Implications” below for more information.

SOURCES OF INFORMATION

LFC Files

Responses Received From

New Mexico Finance Authority (NMFA)
Department of Finance and Administration (DFA)

SUMMARY

Synopsis of Bill

Senate Bill 556 provides the legislative authorization for the Village of Taos Ski Valley Tax Increment Development District (“TSV TIDD”) to issue up to \$44 million in tax-exempt bonds, adjusted for inflation, authorized under the Tax Increment for Development Act. This authorization is subject to:

- 1) Review and approval by the New Mexico Finance Authority (“NMFA”) of the master indenture applicable to the bonds;
- 2) Review and approval by the NMFA of any amendments to the master indenture prior to the issuance of any bonds subsequent to those amendments;
- 3) Determination by the NMFA that the master indenture contains covenants that the proceeds of the bonds will be used in accordance with the TIDD finance plan.

The bill includes several other provisions that may serve to protect the state’s interest. These include:

- a limit on the duration of the bonds at 25-years from the date of issuance of the first series of bonds. This will probably be a sponge bond in 2016, which means the senior bonds will be fully paid by 2041;

- a restriction (which may be an unconstitutional restriction by one legislature of the actions of a subsequent legislature) on authorizing capital outlay projects in the Village, except for buildings or infrastructure owned by the state or a political subdivision and used for public schools, higher education, cultural facilities, public safety or other public purposes. The restriction is also relaxed for economic development projects within the village.
- A provision that when the developer has been fully reimbursed but that the full amount of Village plus County plus State contribution are not necessary to service the remaining long-term bonds, the TIDD board can inform the taxation and revenue department to reduce the state increment. Apparently, the TIDD board is not authorized to reduce the increment for bonds issued against the Village or County gross receipts tax or property tax increments.

The bill has an emergency clause.

FISCAL IMPLICATIONS

NMFA notes the following:

“According to the application materials, the total cost of the public infrastructure project is now estimated at \$50.08 million, of which approximately \$38.2 million is expected to be re-paid from TIDD bond proceeds. By resolution, the Village has dedicated 75 percent of the new revenues derived from Municipal gross receipts tax, Municipal environmental services gross receipts tax, Municipal infrastructure gross receipts tax, Municipal capital outlay gross receipts tax and State Shared gross receipts tax. Additionally, the Village will dedicate 75 percent of the incremental revenues of the ad valorem property tax revenues that are generated within the TIDD. The State Board of Finance has approved a dedication of 50 percent of the State Gross receipts tax revenues.”

“Under the Plan submitted by the TIDD, four tranches of long-term bonds are expected to be issued to reimburse the developer for the costs of the certain public infrastructure. The long-term bonds are expected to be issued in FYs 2020, 2022, 2024 and with the last issue in FY 2027. In addition, the developer expects to issue short-term or “sponge bonds” periodically to soak up the excess revenues beginning in FY 2016 and ending in 2040. Each series of bonds will be issued pursuant to a trust indenture, under which a trustee bank will receive gross receipts tax increment revenues directly from the New Mexico Taxation and Revenue Department and property tax increment revenues from the County Treasurer, will deposit those revenues to pay debt service and maintain debt service reserves, and will be responsible for paying debt service to bond holders. Disbursements of bond proceeds will be permitted under the covenants of the trust indenture solely to pay costs of public infrastructure, upon requisitions approved by an authorized officer of the governing body of that District.”

“The NMFA will review the form of Master Indenture and any supplements thereto prior to the issuance of any bonds to assure that the proceeds of the bonds will be used in accordance with the Plan.”

In addition to review of the application by the NMFA, the Board of Finance staff, the Department of Finance and Administration, Economic Analysis Unit (EAU) and the Legislative Finance Committee economists have diligently reviewed the application with the intent of deter-

mining whether the plan will generate jobs and economic activity and that the plan is in the best interests of the state.

DFA/EAU has provided the following:

“The economic impact analysis provided by TSVI was generated from IMPLAN, which is an input-output model that is used to measure the economic impact of an increase in investment in a geographic region. IMPLAN is commonly used for this type of project analysis.”

“The economic impact analysis assumes an investment of \$352.8 million will be made during the construction phase of the project, which includes the \$307.8 million in public infrastructure, real estate developments, and on-mountain improvements made by the developer and an additional \$45 million in private real estate improvements that will be induced by other parties as a result of the project. Further, the analysis assumes a cumulative \$19.9 million in retail sales, rental and lodging revenue, and operations revenue will be added to the regional economy over the lifetime of the State GRT revenue dedication through increased economic activity. This increase represents approximately 64 percent of FY14 taxable gross receipts for the Village.”

“The project is expected to generate 3,726 full-time equivalent (FTE) direct and indirect jobs with average labor income of \$54,381 during the construction phase of 2015 through 2024. By 2025, the project is estimated to create 295 direct and indirect permanent FTE as a result of expanded resort activity, consisting of 167 full-time positions and 294 part-time positions, with average labor income of \$32,042. The analysis also projects the in-migration to New Mexico of as many as 486 persons during the construction phase with a long-term increase in population of 68 persons.”

“Such job creation and in-migration is expected to generate a total of \$25.6 million in State General Fund revenues from 2015 to 2040 including personal income taxes generated through job creation, and State GRT and other tax revenues generated from the population increase. During this same period, the additional cost to the State General Fund due to the increase in population is estimated to be \$16.1 million for a net positive to the State General Fund of \$9.6 million in nominal terms or \$6.4 million net present value. In addition, the State General Fund is expected to receive \$2.0 million in compensating tax revenues from out of state purchases, and will receive incremental State GRT revenue that is not dedicated to the project.”

The analysis also projects an increase of \$3.4 million in State property tax mill levy collections over the life of the dedication due to the addition of new development and increased property values in the Village. Local governments will benefit from an additional \$800 thousand in compensating tax distributions through the small cities and small counties assistance funds and the municipal equivalency. The Village is expected to benefit from an additional \$12.2 million in incremental Village GRT and property tax revenues net of the Village dedication and \$13.2 million in Lodger’s Tax from the use of the new accommodations.”

“In addition to these benefits, Taos County is expected to receive a cumulative \$13.6 million in County GRT revenue from construction and increased economic activity resulting from the project, and \$17.6 million in property tax revenue from the increased real estate

valuation over the lifetime of the State GRT dedication. The EAU has calculated an additional impact to Taos County school districts, which are projected to receive a cumulative \$13.2 million in property tax revenue over the life of the State GRT dedication, and the Taos Instructional Center, which is estimated to receive \$4.5 million in cumulative property tax revenue. The additional cost to the Village and County has not been estimated, however, it can be assumed that the increase in visitor traffic will lead to an increase in road maintenance and infrastructure.”

While Taos County has not made a final determination of the extent of its participation, the developer, the Village sponsors and the State economists have urged the County to contribute a small amount of Gross Receipts Tax increment and 35 percent of Taos County property tax increment to the TIDD. If this recommendation is honored by the Taos County Commission, then the Developer is at “break-even.” That is, there is a 50 percent likelihood that the Developer will be fully repaid for the up-front investment in constructing around \$58 million in critical public infrastructure. The Developer will transfer title to this infrastructure to the Village when completed.

Pursuant to the plan as submitted, the Developer will receive about \$58 million in bond proceeds over the period from 2016 through 2041.

Summary of Revenues for TIDD	Totals
Revenues	
Village Property Taxes	\$14,615
County Property Taxes	\$6,496
GRT - Recurring - Village	\$13,005
GRT - Recurring - County	\$247
GRT - Recurring - State NM	\$10,286
GRT - One-Time - Village	\$7,057
GRT - One-Time - County	\$894
GRT - One-Time - State NM	\$5,301
Total Revenue sources for TIDDs	\$57,900
Original Plan w/o County	\$58,259

Over the same period of time, the Village, Taos County and the State General Fund will receive over \$20 million each in revenues over and above the baseline without the project.

What makes this plan work is the unusually large ratio between private investment and the requested TIDD support.

Summary Revenues For Village, County and State	Totals
Revenues	
Village Property Taxes	\$4,872
County Property Taxes	\$12,063
State Property Taxes	\$3,582
GRT - Recurring - Village	\$4,335
GRT - Recurring - County	\$7,665
GRT - Recurring - State NM (General Fund)	\$10,286
GRT - One-Time - Village	\$2,352
GRT - One-Time - County	\$3,399
GRT - One-Time - State NM (General Fund)	\$5,301
State Compensating Tax	\$3,141
Village Lodgers Tax	\$14,072
Total Revenue sources	\$71,067
Village Net Total	\$25,630
Taos County Net Total	\$23,127
State Net Total	\$22,310

SIGNIFICANT ISSUES

NMFA notes the following:

“The premise of tax increment financing is that public infrastructure installed in support of development could be re-paid from new tax revenues expected to result from the development. SB 556 authorizes the issuance of bonds backed by incremental revenues of local and state taxes to reimburse Taos Ski Valley, Inc. (“TSVI”) for the costs of various components of public infrastructure outlined in the Plan. The centerpiece of the Plan is the renovation and revitalization of the Village, including construction and relocation of public roadways, pedestrian improvements, river crossings, public plaza areas, water and wastewater improvements and dry utilities. According to the Plan, these improvements will make Taos Ski Valley a world-class, four season tourist destination, and private improvements will be necessary to compete with similar destinations located in Colorado, Utah and Wyoming.”

“The TIDD Act was approved by the 2006 Legislature and creates an economic development finance tool that is identical in structure to Tax Increment Financings whereby a local government sets base revenues – assessed property valuation and/or taxable gross receipts – for a specific geographic area and allows the incremental revenues derived from a development or redevelopment project within those boundaries to be used to pay for public infrastructure associated with the project. New Mexico is the 49th state to adopt legislation allowing this economic development tool.”

PERFORMANCE IMPLICATIONS

The NMFA is required under the Act to review a proposed issuance of TIDD bonds and determine that the proceeds of the bonds will be used for a tax increment development project in accordance with the district’s Plan and present the proposed issuance of the bonds to the legislature for approval.

The LFC tax policy of accountability is not met since TRD is not required in the bill to report annually to an interim legislative committee regarding the data compiled from the reports from taxpayers taking the deduction and other information to determine whether the deduction is meeting its purpose. However, the Board of Finance resolution requires the Developer and the TSV TIDD board to report to the BoF annually.

ADMINISTRATIVE IMPLICATIONS

The boundaries of the TIDD are essentially coterminous with the boundaries of the village. TRD should have little difficulty determining the base amounts for both property tax and gross receipts tax purposes.

TECHNICAL ISSUES

The restriction on the legislature approving or authorizing capital outlay is probably unconstitutional. However, there are several exceptions to this prohibition that will allow the legislature to provide capital outlay funds or to allow approval by an executive agency of JTIP funds or similar economic development incentives.

OTHER SUBSTANTIVE ISSUES

NMFA staff reviewed various documents submitted by the Village, namely:

- a. Application to the Village for the creation of the TIDD;
- b. Village ordinance and resolutions:
 - i. Resolution Calling for the Formation of the TIDD and the Taxes Dedicated to the District;
 - ii. Resolution Dedicating the Ad Valorem Property Tax Increment to the District;
 - iii. Ordinance Establishing the TIDD Board;
- c. Economic Development and Impact Analysis;
- d. State Board of Finance resolution for the use of State Gross Receipts tax;
- e. Draft Finance Plan; and
- f. Project update on construction projects within Village area.

NMFA focused its review of the project to the structure of the proposed bond issuances as it relates both to the Plan and to assure that the proposed bonds will be structured to provide certain protections to the bondholders. In its review, the NMFA determined that it needed to review and approve the master indenture governing the proposed issuance of bonds, and any amendments to the master indenture, to be certain the bond proceeds would be used in accordance with the Plan. The NMFA's recommendation to the legislature is contingent upon this review and approval of the master indenture.

LG/bb/aml