MINUTES OF THE

NEW MEXICO STATE BOARD OF FINANCE

SPECIAL MEETING

Santa Fe, New Mexico

January 30, 2015

A Special Meeting of the New Mexico State Board of Finance was called to order on this date at 9:20 a.m. in the Governor’s Cabinet Room, Fourth Floor, State Capitol Building, Santa Fe, New Mexico.

1. **ROLL CALL: QUORUM PRESENT**

**Members Present:**
The Hon. John Sanchez, Lt. Governor
Mr. Robert J. Aragon, Public Member [arriving at 9:25]
Mr. Adelmo Archuleta, Public Member [by telephone]
Mr. Michael Brasher, Public Member, Secretary
Mr. John Kormanik, Public Member

**Members Excused:**
The Hon. Susana Martinez, President
The Hon. Tim Eichenberg, State Treasurer

**Staff Present:**
Dr. Thomas E. Clifford, Secretary of Finance and Administration
Ms. Stephanie Schardin Clarke, Director, State Board of Finance
Mr. Jeff Primm, Deputy Director, State Board of Finance

**Legal Counsel Present:**
Mr. Luis Carrasco, Attorney General’s Office
Ms. Sally Malavé, Attorney General’s Office

**Others Present:**
[See sign-in sheets.]

Lt. Governor Sanchez asked the record to reflect that the meeting was delayed because of inclement weather.]
2. APPROVAL OF AGENDA

ANNOUNCEMENT: NEXT REGULAR MEETING – TUESDAY, FEBRUARY 17, 2015

Mr. Brasher moved approval of the agenda, as published. Mr. Kormanik seconded the motion, which passed 4-0 by voice vote.

[Member Robert Aragon joined the proceedings.]

TAX INCREMENT DEVELOPMENT DISTRICT

Presenters: Mark G. Fratrick, Village Administrator; Dennis Romero, Village Attorney; Chaz Rockey, Treasurer, Taos Ski Valley, Inc.; Peter Franklin, Modrall Sperling, Taos Ski Valley, Inc. Counsel; Tom Whitman, Council Member, TIDD Board Member

3. Village of Taos Ski Valley – Request for Dedication of a Portion of State Gross Receipts Tax Increment

Mr. Rockey said their request for the dedication is 75 percent, which is the maximum allowed, and they understand Board of Finance staff will recommend 57 percent. He commented that the 57 percent “give or take a percentage point” would leave them at the breakeven point. Under that scenario, the developer may not be reimbursed in full for outlays made toward public improvements, as there would be no room for error. He said this is a significant project, involving an investment in a rural area of New Mexico of $250-$300 million. He said they see this as an opportunity to set a precedent for other investors to come into New Mexico and seek state backing for private development.

Mr. Rockey stated that, based on their analysis, the higher the dedication, the less money the TIDD pays out because of the interest accrual. A lower dedication slows the repayment process to the developer, and any financing the developer obtains takes longer to pay back, so more interest is paid. The difference between a full dedication of 75 percent and a breakeven dedication is about $5 million in additional interest. He said they feel it is in everyone’s interest to get the public improvements paid for sooner rather than later so that the various entities contributing to the TIDD can reduce their dedication sooner. Once the TIDD reimburses the developer, its only obligation is to the outstanding long-term bonds. At that point, he said an analysis could be done to reduce the dedication to support the debt service covenants of any outstanding long-term bonds.

Mr. Rockey said there is positive momentum happening with the Village. They have worked with their planning and zoning committee to get conditional use permit approval on their first two private development projects. An 80-room hotel is set to break ground in April, and the second project, which will break ground in April 2016, will be 54 condominiums. Both projects would serve as a springboard for a new core village in Taos.

Leila Burrows Kleats, Chief Economist, Department of Finance and Administration, presented a recommendation to the Board as follows:

I. Executive Summary

After reviewing the application submitted by TSVI, the Economic Analysis Unit (“EAU”) of the Department of Finance and Administration recommends that the State Board of Finance approve a dedication of State gross receipts tax (GRT) revenues in the amount of 57 percent of the total incremental State GRT revenues received from the renovation and redevelopment of Taos Ski Valley.
Such an amount ensures that the State General Fund is not dedicating more than the TSVI application justifies is necessary to fully reimburse the TSVI for public infrastructure costs.

II. Background:

TSVI has applied to the Board to receive a dedication of 75 percent of incremental State GRT to reimburse TSVI for the costs of various public infrastructure projects included in the renovation and redevelopment of the Taos Ski Valley (“the Project”). The goal of the project is to create a world-class year-round tourist destination in the Village, which is expected to increase economic growth in the Village and surrounding region as well as other areas of New Mexico.

The Village has approved a resolution dedicating 75 percent of its incremental property tax revenue and 75 percent of its incremental revenue generated from several local option gross receipts taxes and the State GRT distribution to the Village all of which total a rate of 3.2875 percent. TSVI has begun informal discussions with Taos County (“County”) to attempt to secure a dedication of County GRT incremental revenue.

The EAU is asked to assist the Board in determining whether the requested dedication of State GRT is “reasonable and in the best interest of the state and that the use of the State gross receipts tax is likely to stimulate the creation of jobs, economic opportunities, and general revenue for the state through the addition of new businesses to the state and the expansion of existing businesses within the state,” (Section 5-15-15 (F) NMSA 1978).

III. Summary of Economic Impact Analysis:

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 expenditures and possibly a need for additional emergency personnel and related resources.

A table detailing the impacts to the State General Fund and local governments is included on page 7 below.

IV. Recommendation:

The project is reasonable and in the best interest of the state. The project will be a net positive to both the state and local governments in terms of job creation and tax revenues. Though the permanent jobs created will likely be relatively low-salary, part-time jobs, these can generally be considered “economic base” jobs to the extent that the impact of tourism on the state economy is comparable to an export because it brings revenue into the state from external sources. Importantly, the creation of an annual average of 373 construction jobs could provide relief to the region following the recent closure of the Chevron molybdenum mine and corresponding layoff of 300 miners.

While the assumptions regarding in-migration are surprising considering the high unemployment rate in Taos County (8.4 percent as of November 2014), this additional population is expected to increase State General Fund revenues and expenditures by a proportional amount, such that the exclusion of this population should not result in a net negative impact to the State. If this population were excluded from the analysis, the benefit to the State General Fund would accrue from the personal income tax revenues generated by the direct and indirect FTE with no additional costs to the State General Fund.

The GRT increment calculations are derived from an expectation of a sizeable increase in seasonal visitors to the resort. While the growth rate seems strong (annual visitation to the Village is expected to grow by 48 percent over current visitation by 2023), the peak winter visitation rate assumed in the analysis (300,000) is less than the peak visitation rate achieved by the Village in the 1990s (350,000-400,000). The summer visitation is expected to reach a level of 25,000 annually, which is comparable to other resort regions on which the project is modeled. However, there are some risks associated with
these estimates as actual visitations to the region will depend on the weather conditions and strength of
the state and national economies.

The ratio of public to private financing is roughly 1 to 6. The contribution from local governments —
including 75 percent of unrestricted municipal and county GRT and 75 percent of property tax revenues
for the Village, Taos County and county school districts — is approximately 57 percent of available
revenue, which compares to the recommended dedication of State GRT of 57 percent, which is 75
percent of the available State GRT increment. In dollar terms, the Village is contributing an estimated
$36.7 million, compared to an estimated State contribution of $20.2 million.

The boundaries of the project conform to the boundaries of the Village, which allows for an easier
calculation of baseline revenues by the New Mexico Taxation and Revenue Department.

It is estimated that the project will generate $8.7 million in incremental State GRT revenue during the
construction phase and $26.7 million in incremental State GRT revenue through operations, retail sales,
and rental and lodging fees. The nonrecurring revenue generated from the construction project will be
used to finance short-term sponge notes purchased by the developer; the recurring revenue generated
from resort operations will be used to finance sponge notes and longer term bonds, up to a duration of
25 years.

With the requested 75 percent dedication, total net bonding capacity is estimated at $46.0 million. In
discussions with the developer, it was agreed that a dedication of 75 percent far surpasses the amount
needed to reimburse TSVI for construction costs, which total $28.7 million not including capitalized
interest on this amount. The developer estimates that a dedication of 56.1 percent represents a
break-even point, at which the analysis projects TSVI will be fully reimbursed without excess State GRT
flowing to the tax increment development district ("TIDD"). According to EAU calculations, a 57 percent
dedication would result in a net bonding capacity of $39.4 million, comprised of $27.1 million in short-
term “sponge” notes and $12.3 million in long-term bonds. At this level of dedication, the developer
would be reimbursed 100 percent of public infrastructure costs funded via the tax increment, while
limiting the impact on the State General Fund.

In previous discussions the developer has emphasized the need for a cushion in the event that other
financing sources do not materialize, recurring GRT revenues are insufficient to meet debt service, or
timing issues have resulted in a delay in issuance or an increase in market interest rates from those used
in the analysis. TSVI notes that a larger dedication will allow faster defeasance of the bonds, and thus a
sooner dissolution of the TIDD.

As of the writing of this memo, the developer has not secured a County GRT dedication. As noted above,
Taos County is estimated to receive a cumulative $31.2 million in additional tax revenues over the
lifetime of the State GRT dedication. The exclusion of a County contribution creates some equity issues.
Moreover, since the analysis already includes a 10 percent budget contingency in the construction costs
as well as a 1-year debt service reserve, it might be overly cautious to allow a greater bonding capacity
than is needed to reimburse the developer. For these reasons, it is recommended that the State Board
of Finance approve a dedication of State GRT revenues at 57 percent of the total incremental State GRT
revenues received from the project. Such an amount ensures that the State General Fund is not
supporting more than the amount needed to fully reimburse TSVI’s public infrastructure costs.

V. Other Considerations:
The finance plan estimates that $3.9 million of the public infrastructure will be provided by utility
companies through the addition of natural gas and electrical lines and fiber optic networks. Another
$34.2 million will be provided through the TIDD, while a public improvement district ("PID") assessment on Village property owners will provide $6.0 million. The final $8.3 million will be provided in the form of grants and loans from the Village. TSVI has not received any guarantees from the utility companies for utility costs or the Village regarding the issuance of grants or loans. If these additional funding sources do not materialize, this could seriously impact the completion of the project, as this funding represents costs to install and upgrade existing utilities and a wastewater treatment plant.

The analysis assumes the workforce will stem from the surrounding region including the Town of Taos and nearby counties. As such, additional workforce housing will not be necessary. This seems a reasonable assumption considering the relatively high unemployment rate in Taos County and nearby counties. Additionally, the analysis assumes that the projected increase in population can be readily absorbed by local school districts. Again, this is not an unreasonable assumption considering the minimal projected increase in population. As is true of many such mountain resorts, the workforce will likely reside outside the Village limits due to the relatively high cost of housing within the Village.

There is some risk of cannibalization from other ski and summer destinations. While this should not materially impact the State General Fund, it could have a fairly large impact on local governments if there is a gross receipts tax rate differential between the locales. Local governments derive a majority of general fund revenues from gross receipts taxes, so a large shift in economic activity could have a severe negative impact on some local governments. That being said, the developer assumes and anticipates that this project will bring in tourists who currently travel to out-of-state mountain destinations rather than displacing current visitors to New Mexico. Moreover, the State Board of Finance has received a letter in support of the TIDD from Ski New Mexico, an organization representing ski resorts statewide. In either case, it is logical to assume some degree of cannibalization will occur as a result of the on-mountain improvements and the addition of other amenities.

It should be noted that the developer has already begun construction on the project. According to the application, TSVI will be unable to proceed beyond the development of Parcels D and G without receiving the State GRT increment. These parcels include condominiums and the hotel. It is possible that the addition of these parcels alone is sufficient to attract out-of-state tourists and generate increased economic activity to the Village. However, without the additional planned real estate development and on-mountain improvements, the positive impact to the state anticipated in the developer’s analysis may not be fully realized.

The developer has stated a commitment to sustainability and plans to use LEED standards in the first development project that will serve as a baseline for subsequent development. To that end, TSVI has engaged a sustainability consulting firm to conduct an energy audit of existing structures and assist in the design of other development.

As a final consideration, this project meshes well with the New Mexico Tourism Department’s campaign to attract more visitors to New Mexico through marketing strategies in Colorado, Texas, Chicago, and Los Angeles.

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Responding to Secretary Clifford on the status of the County’s contribution, Mr. Fratrick stated that two county commissioners will be visiting the Ski Valley on February 5, and some time after that a presentation will be made to the County Commission. He said timing has been a challenge because of the elections and a change in the composition of the board of county commissioners. He said the county manager did express support in a meeting with him and Village attorney Dennis Romero.
Mr. Rockey stressed that TSVI is “fully incentivized” to get a dedication from the county.

Secretary Clifford asked what kind of support has been sought from the area’s legislative representatives, and Mr. Franklin responded that they have engaged a lobbyist.

Regarding the possibility of cannibalizing other resorts in New Mexico, Secretary Clifford asked if there are surveys available showing how many New Mexico residents versus out-of-town residents visit the Taos Ski Valley. Mr. Rockey responded that they have a significant loyalist following from Texas and Oklahoma. He said the Taos Ski Valley used to draw 350,000 skier visits per year, and that number has dropped to 250,000. He said people are bypassing New Mexico and going to Colorado to ski, and TSV sees that as an opportunity to capture that market. He said they have a market study that focuses on their current demographics and target demographics.

Secretary Clifford said the long-term trend for skiing and snowboarding is not positive, which was most recently discussed in an article in the Wall Street Journal this week. He asked if TSV has factored that in, and Mr. Rockey responded yes. He said they are confident that the “synergies of all we’re going to do here are going to increase awareness as far as Northern New Mexico as a skiing destination in general, and also we’re going to get people who used to come to Taos to come back.”

Secretary Clifford observed that the projection for visits is roughly a 50 percent increase, but the projection for retail, lodging, etc., is roughly a 65 percent increase. He asked where this extra multiplier comes from, and Mr. Rockey responded that it may be a function of inflation.

Regarding Ms. Kleats’ reference to excess GRT, Secretary Clifford asked what happens to any revenue that exceeds what is anticipated in the financial plan.

Ms. Clarke said the increment from the state has to stay in place as long as it is needed to service the outstanding long-term bonds. She said Section 6 in the resolution distributed today states that, at the time the developer has been fully reimbursed for the costs of the TIDD-eligible infrastructure, the developer will approach the Board with an estimate of what amount would be required to only service the long-term bonds.

Secretary Clifford asked who decides what infrastructure is eligible. Ms. Clarke stated that the Public Improvements Finance Plan scenario includes funding from utility companies, TIDD, PID and Village loans and grants. Focusing only on the TIDD column, with capitalized interest to the developer, the total would be $34,188,000. She said the developer and its counsel would like the Board to approve a dedication that is flexible to allow TIDD revenues to be used to reimburse any of the $52 million of costs. She commented that it is a policy decision for the Board whether to approve a flexible dedication that can be used to reimburse any of these other additional funding sources, or whether to limit the dedication for use in the TIDD column.

Secretary Clifford asked who ultimately decides which infrastructure is actually developed, how it is developed, the scope and scale, etc. Mr. Franklin responded that there is a master development agreement between the developer, Village and TIDD. If the PID is formed, the PID will become a party to that agreement. He said the master development agreement provides that, when the developer has completed any improvement project that is ready to be dedicated to the Village or the utility company or other entity, at that point there is an obligation of the TIDD to reimburse the developer from available TIDD revenue. He said obviously the TIDD board has to authorize the issuance of a sponge bond or a long-term bond or any expenditure of TIDD revenue, but it is the master development
agreement that sets forth the universe of eligible infrastructure. By law, the State of New Mexico has a seat on the TIDD board.

Mr. Kormanik asked Mr. Rockey if he had seen the LFC recommendation with regard to the proposal, and Mr. Rockey said he had not.

Mr. Kormanik said he had raised this question because TSVI is required to get approval from the legislature, and one of the things that LFC staff is concerned about is the lack of participation from Taos County, and that the proposal being reviewed today does not incorporate the amount the County could potentially contribute to the increment. He noted that the LFC staff is recommending a 50 percent contribution to the TIDD of GRT and they are not comfortable recommending 75 percent to the legislature.

Mr. Rockey reiterated his earlier comments that it is very much in their interest to get a contribution from Taos County, and they fully intend to get that contribution.

Mr. Archuleta noted the 10 percent contingency in the construction budget and asked how that was calculated. Mr. Rockey responded that they have been looking at pricing for the past two years and this is real pricing from their general contractor, Jaynes Construction, and is for the first two products (hotel and condominiums). He said that is used as a baseline for projects going forward.

Mr. Archuleta asked what the capacity of the wastewater treatment plant will be, and Mr. Fratrick responded 300,000 gallons. Mr. Archuleta asked if preliminary drawings have been done, and are they working with the New Mexico Environment Department towards a permit. He said $20 per gallon would "scare me a little bit" for a plant of that size, particularly if tertiary treatment were necessary. He asked how far along they are in the planning of this infrastructure, and if it ends up costing $40 a gallon instead, how will that be covered.

Mr. Fratrick responded that they do not have plans at this point for the treatment plant. They are using FEI Engineers, and it was FEI that gave the estimate of $6 million. He said they will be incorporating some of the old plant into the new production.

Mr. Rockey added that the plant has to be done, and they have no choice in that, "and frankly, if the plant costs more and that involves maybe a higher commitment from the developer, then that's what happens." He stated that, with more capacity from the TIDD, it would be easier for them to address these concerns.

Mr. Archuleta said his concern is that the financial models being used in this proposal are very refined, with specific amounts assigned to the various revenue sources. He said he wanted to make sure that he understood how refined their budget was, since obviously that would result in a different financial model.

Ms. Kleats asked to correct an error she had made on the table on page 4 of her memorandum. Excluding the school districts in the table, there would be a 68 percent contribution from local governments, and this does not account for any county property tax that may have been obligated for debt service.

John Brooks, Director of Commercial Lending for the New Mexico Finance Authority (NMFA), said he has been working with the applicants. He said NMFA looks at the ability of the bonds being issued and being repaid from this TIDD district. He said NMFA will make a representation to the legislators that
it has looked at the structure and has no further questions about the structure. In the future, NMFA would look at the master bond indenture to make sure it meets all of the requirements and that the revenues support the bonds to be issued in the future. He said the NMFA would base its analysis on the recommendations of the Board as well as any increment from Taos County.

Secretary Clifford commented that, if Taos County steps in with a property tax pledge, NMFA typically bonds them at a one-time coverage, so that is a very secure pledge. Mr. Brooks agreed.

Mr. Brasher asked Ms. Clarke if the Board’s approval of the resolution today might take the pressure off Taos County to contribute.

Ms. Clarke responded that, with respect to earlier discussion at this meeting that approving the dedication would be approving it to be used just on the roughly $34 million of costs allocated to the TIDD in the financing plan, or to the entire $52 million of public improvements, that is a policy decision for the Board. She said the applicant would certainly like the Board to approve that flexibility. In the version of the resolution before the Board today, all of those other financing sources, the TIDD, Village loans and grants, and the utility company, are all defined as “Additional Funding Sources.” In Section 5, it says that in the event that those Additional Funding Sources do not materialize, the Village could appear before the Board to request some future approval to be able to use the state GRT dedication for sources other than the $34 million of improvements identified in the TIDD column. That maintains the Board’s flexibility to allow the developer and Village to seek those Additional Funding Sources from the utility companies, PID electorate, or Village. If that were not to materialize, it makes clear that the Village could approach the Board for an amendment.

Ms. Clarke said staff recommends two minor changes if the resolution is adopted:

- Section 4: “...and shall not be used for those TIDD-eligible infrastructure improvements to be funded by the PID, the Village or the utility companies Additional Funding Sources subject to the requirements of Section 5 of this resolution.”

- Section 5: “...including those TIDD-eligible infrastructure improvements originally contemplated to be funded by the PID, the Village or the utility companies Additional Funding Sources in the form of reimbursement to the Developer of the Project.”

Mr. Franklin clarified that all of the projects identified in the plan of finance are TIDD eligible. The fact that they have allocated certain portions of those projects to additional funding sources is really their effort to identify an alternative for paying for those portions of the projects. He said it represents the optimal scenario in which the PID is approved, and the Village is actually able to obtain financing for the Village improvements, and the utility companies actually have a way of either giving a credit or paying up front a portion of the utility installation. He said they feel they have a reasonable shot at obtaining some or all of those additional financing sources; and to the extent that the TIDD has the ability to fund all of that at 100 percent, they would like that authority.

Lt. Governor Sanchez commented that Taos County will be a major benefactor of this project, and he would like to see them participate and perhaps pick up the additional 7 percent that the State will not be able to contribute.

Mr. Brasher said he feels this project will be of benefit to the state and could also benefit other ski areas.
Mr. Brasher moved approval of the resolution, with the changes specified by staff, at the 50 dedication percent level. Mr. Aragon seconded the motion, which passed 5-0 by voice vote.

**ADJOURNMENT**

Its business completed, the State Board of Finance adjourned the meeting at 11:00 a.m.

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Susana Martinez, President

Date

Michael Brasher, Secretary

Date 2/17/2015