



**AGENCY:** Spaceport Authority

**DATE:** September 28, 2017

**PURPOSE OF HEARING:** Update on Spaceport's operating budget and economic impact

**WITNESS:** Dan Hicks, Director

**PREPARED BY:** Jacqueline Martinez

**EXPECTED OUTCOME:** Informational

## BACKGROUND INFORMATION

During the 2017 legislative session, Spaceport Authority was appropriated \$375.9 thousand in general fund support, and \$5.4 million in other revenues. The Spaceport Authority has stated they should be self-sustaining by FY19, due to an increase in other revenue.

Today the spaceport has contracts with 27 New Mexico companies from nine counties. New Mexico Spaceport Authority (NMSA) has 20 full-time staff working on-site and Virgin Galactic has 20 staff, with an additional 70 Virgin Galactic employees to be added once commercial flights begin. Spaceport's anchor tenant, Virgin Galactic, is slated to begin operations in the Virgin Galactic terminal hangar facility this fiscal year. The company originally planned for commercial launches to begin as early as 2010, but Virgin Galactic suffered numerous setbacks and delays, including a catastrophic mishap in October 2014.

## Budget Issues

Virgin Galactic's midair accident in 2014 substantially impacted the spaceport. The company's first commercial flight is expected sometime in FY18, with no date set yet. The Virgin Galactic lease is currently \$1 million and will increase to \$3 million in FY18, regardless whether launches begin. Virgin Galactic, as well as all tenants, get invoiced monthly. Virgin Galactic says it has sold more than 600 personal space flight tickets, at a cost ranging between \$200 thousand and \$250 thousand. With an expected commercial launch in FY18, Spaceport Authority didn't request additional general fund appropriations for the FY18 operating budget; however, it requested a \$1.0 million increase for FY19. Contracts increased significantly in FY18 due to Federal Aviation Administration environmental studies that used to be expensed through capital outlay as part of building expenses. However, now that construction is complete, the environmental studies will become a contractual cost in the operating budget.

## Visitors and Tenants

The key to reducing or eliminating any potential shortfall and achieving long-term financial stability as an enterprise agency is increasing the number of visitors to, and tenants at, the spaceport. A study performed by a Spaceport contractor estimated annual visitation could reach 200 thousand people once Virgin Galactic

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begins its commercial launches. In addition to space flight, Spaceport America launched five signature events, including an open house, a drone event, a foot race, an auto time trial, and a college rocket competition, all with the intent to attract more visitors. The agency reports visitor levels reached 13.8 thousand in FY16, a substantial increase from 3,000 visitors in FY15.

Spaceport America hosted the college rocket competition for the first time in June 2017 and plans to continue doing so annually. More than 1,100 students traveled to southern New Mexico for the competition. These events bring a short boom to the local economy with local hotels and restaurants experiencing an increase in business according to a spaceport economic impact study. For example, Heritage Hotels, which operates Hotel Encanto and Hilton Garden Inn in Las Cruces, saw a 25 percent increase in total revenue in June 2017 compared to June 2016. In one of the hotel industry’s slowest months, these two hotels received \$100,000 in hotel-reservation revenue and \$7,500 collected in taxes, the company says.

Spaceport America’s primary tenants include Virgin Galactic, SpaceX, Up Aerospace, and EXOS Aerospace and EnergeticX. UP aerospace continues launching research from Spaceport America, which it has been doing since 2006 and has launches scheduled for later this year as well. ARCA Space Corporation is developing a lower-cost rocket in Las Cruces that would carry heavy loads into space. It’s also taking orders for a hover board at a cost of \$14,500. In February, the company said it had made \$350,000 from hover board orders thus far. Virgin Galactic has paid \$7.1 million in rent and user fees to the state for its use of a hangar and other facilities at Spaceport America as of April 2017.

**Firefighter and Security Costs.** A significant portion of NMSA’s expenses come from a contract with Fiore industries to provide emergency and security services. Initially, this contract providing security guards and firefighters cost \$500 thousand per year. However, for FY18 the agency increased the contractual cost to \$2.1 million for four firefighters on site at all times as well as safety and medical support. However, this level of emergency responder staff is not required by the State Fire Marshal’s office. The agency has stated that in order to reassure tenants it is necessary to have emergency responders on location at all times, regardless of a rocket launch taking place that day or not. LFC staff is looking in to local firefighter costs and activity of the emergency team at Spaceport America to analyze potential efficiencies and costs savings.

## Capital Outlay

The Legislature appropriated a total of \$132.6 million in capital outlay funding to the Spaceport Authority for planning, design, and construction of Spaceport America and related infrastructure, and



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\$76.4 million bond proceeds from an incremental gross receipts tax imposed by Sierra and Dona Ana counties brings the total cost to \$209 million. The tax increase was approved in Dona Ana County in 2007 and Sierra County in 2008. Voters voted on the tax increase with an understanding that three-fourths of the money would be used for construction of the facility and the remaining one fourth of the tax money was to be used for education programs in the two counties. Using these funds to pay for operations must be approved by the New Mexico Finance Authority (NMFA). In June, NMFA gave approval for Spaceport Authority to continue using these funds for another year, when another review will be given. The tax money has thus far paid off approximately \$44 million in bond debt. The remaining \$74 million is scheduled to be paid off through 2029. The tax increase is due to sunset in 2028.

Phase one of construction is complete, with the basic spaceport infrastructure (electricity, water, waste water system, and communication), spaceway, operations center, terminal and hangar, and vertical launch pads. Phase two construction projects include the improvement of a 24-mile southern access road to the spaceport from Exit 32 on Interstate highway 25. The bids for this project were received in September and are currently in review, with construction scheduled to start in November 2017. The project is estimated to take a year to complete. Phase three would require additional capital outlay of \$150 thousand to extend utilities to Spaceport America North Campus. The north campus is designed for future costumers to fund their own space and buildings.

### **Questions**

1. What is Spaceport's plan to increase tenants at the Spaceport facility?
2. Is there any uncertainty in the current tenants staying?
3. What is the current status of the southern road?
4. Does Spaceport feel that the local economy of T or C will be able to provide economic necessities for the additional Virgin Galactic employees that will be full time once commercial flights begin?
5. If Virgin Galactic rent is going up in FY19 to \$3 million, why put more general fund in to the budget?
6. Water sufficiency was an issue for NMSA and surrounding ranches, as this been resolved?

JM/al

**New Mexico Spaceport Authority**  
**Combined and Consolidated Revenues and Expenditures**

(in thousands of dollars)

	FY15	FY16	FY17	FY18	FY19
<b>SOURCES:</b>	<b>Actuals</b>	<b>Actuals</b>	<b>Projected</b>	<b>Operating Budget</b>	<b>Request</b>
General Fund Operating Budget Appropriation	\$463.1	\$462.5	\$444.0	\$375.9	\$1,000.0
Special/Supplemental Appropriation	\$0.0	\$500.0	\$1,200.0	\$0.0	\$0.0
Other Transfers	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Federal Revenues	\$0.0	\$0.0	\$971.2	\$0.0	\$0.0
Other Aerospace Revenues					
428002 Lease Revenue	\$1,070.1	\$1,077.5	\$1,166.4	\$2,622.8	\$3,500.0
428102 User Fee Revenue	\$649.2	\$687.0	\$715.2	\$1,600.0	\$1,500.1
428202 Other aerospace Revenue	\$0.0	\$263.7	\$12.8	\$0.0	\$0.0
Other Non-Aerospace Revenues					\$0.0
428302 Venue Revenue	\$144.0	\$87.5	\$22.6	\$398.8	\$649.9
428402 Tour Revenue	\$9.2	\$6.6	\$8.7	\$50.0	\$50.0
428502 Merchandise Revenue	\$0.2	\$1.5	\$19.2	\$50.0	\$50.0
428602 Utility Revenue	\$155.3	\$186.4	\$112.9	\$160.0	\$160.0
428702 Other Non-aerospace Revenue	\$0.0	\$0.0	\$68.2	\$0.0	\$0.0
Operating Fund Balance (Expense)*	\$0.0	\$725.9	\$590.0	\$0.0	\$0.0
Excess Pledged GRT Revenues	\$627.0	\$585.0	\$322.1	\$585.0	\$700.0
GRT Bond Fund Balance (Expense)	\$3,417.8	\$1,403.3	\$0.0	\$0.0	\$0.0
Severance Tax Bond Funds (Expense)	\$1,235.8	\$476.7	\$200.0	\$13,800.0	\$20,000.0
Severance Tax Bond Appropriations	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
<b>TOTAL SOURCES</b>	<b>\$7,771.7</b>	<b>\$6,463.6</b>	<b>\$5,853.3</b>	<b>\$19,642.5</b>	<b>\$27,610.0</b>
<b>USES:</b>	<b>Actuals</b>	<b>Actuals</b>	<b>Projected</b>	<b>Operating Budget</b>	<b>Requested</b>
200 - Personal Services & Employee Benefits	\$1,196.10	\$1,491.30	\$1,660.40	\$1,814.00	\$2,349.40
300 - Contractual Services					
Protective Services	\$0.00	\$1,349.90	\$1,955.00	\$2,100.00	\$2,724.20
Other Contracts	\$276.20	\$150.00	\$163.80	\$185.70	\$344.50
Total Contractual Services	\$276.20	\$1,499.90	\$2,118.80	\$2,285.70	\$3,068.70
400 - Other					
Facilities Maintenance	\$0.00	\$400.00	\$392.40	\$400.00	\$389.50
Property Insurance	\$95.40	\$170.00	\$179.50	\$165.80	\$196.10
Buildings & Structures	\$0.00	\$167.80	\$190.00	\$100.00	\$100.00
Other	\$832.80	\$854.60	\$1,112.20	\$1,077.00	\$1,506.30
Total Other	\$928.20	\$1,592.40	\$1,874.10	\$1,742.80	\$2,191.90
GRT Bond Expenditures					
Protective Services	\$2,314.60	\$327.90	\$0.00	\$0.00	\$0.00
Construction	\$1,103.20	\$1,075.40	\$0.00	\$0.00	\$0.00
Environmental Services	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Visitor Experience	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Other	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Severance Tax Bond Expenditures					
Environmental Services	\$201.50	\$105.10	\$200.00	\$200.00	\$200.00
Construction	\$1,034.30	\$371.60	\$0.00	\$13,600.00	\$19,800.00
Other	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
<b>TOTAL USES</b>	<b>\$7,054.10</b>	<b>\$6,463.60</b>	<b>\$5,853.30</b>	<b>\$19,642.50</b>	<b>\$27,610.00</b>
<b>NET SURPLUS (SHORTFALL)</b>	<b>\$717.60</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$0.00</b>
<b>GRT BOND ENDING FUND BALANCE</b>	<b>\$4,823.10</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$0.00</b>
<b>STB ENDING FUND BALANCE</b>	<b>\$14,476.70</b>	<b>\$14,000.00</b>	<b>\$13,800.00</b>	<b>\$0.00</b>	<b>\$0.00</b>

Source: New Mexico Spaceport Authority

Note: Nonrecurring GRT bond and severance tax bond fund balances are included in the revenues, so any net surplus shown for a fiscal year in which these balances are used does not indicate a true operating surplus and should not be construed as available for operational expenses.

\* There was an operating fund balance prior to FY14 of \$655.8 thousand, and the current balance will be exhausted in FY18.