F I S C A L   I M P A C T   R E P O R T

		ORIGINAL DATE	1/26/16		
SPONSOR	Cotter	**LAST UPDATED**		**HB**	
SHORT TITLE	Limit Spaceport Bond Issuance & Uses			**SB**	157
				ANALYST	Clark

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY16	**FY17**	**FY18**	**FY19**	**FY20**		
	\$300.0 – \$630.0	\$300.0 – \$630.0	\$300.0 – \$630.0	\$300.0 – \$630.0	Recurring	Spaceport Bond Debt Service Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY16	FY17	FY18	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total		(\$300.0) – (\$630.0)	(\$300.0) – (\$630.0)	(\$600.0) – (\$1,260.0)	Recurring	General Fund

Parenthesis ( ) indicate expenditure decreases

Relates to SB 145

SOURCES OF INFORMATION
LFC Files

Responses Received From
New Mexico Spaceport Authority (NMSA)
New Mexico Finance Authority (NMFA)

SUMMARY

Synopsis of Bill

Senate Bill 157 limits the Spaceport Authority's (NMSA) power to issue or refund bonds, limits the use of proceeds of the regional spaceport gross receipts tax (GRT) imposed by Dona Ana and Sierra counties, and requires voter approval for additional bonds.

The most significant provision in the bill is to disallow the use of excess pledged GRT revenue from the two counties to pay for NMSA operations. The bill provides the relevant portion of

GRT revenues may only be used for:

1. bonds issued prior to July 1, 2106:
    a. to pay principal and interest until the bonds are fully retired,
    b. for acceleration of the payment of principal and interest or to retire the bonds prior to their original term, or
    c. to refinance or refund the bonds as long as that does not increase the outstanding amount of principal owed by NMSA or the two counties; or
2. bonds approved by voters and issued by NMSA pursuant to statute.

The effective date of this bill is July 1, 2016.

FISCAL IMPLICATIONS

This bill would not impact revenues generated by the local option gross receipts taxes in Dona Ana and Sierra counties but would affect how those revenues may be used. The bill requires all relevant proceeds to be used to pay the bonds, whereas currently, NMSA uses an amount in excess of that needed to make the required payments to supplement operational funding. NMSA reports it receives about $300 thousand to $630 thousand annually for this purpose. Using this funding for the bonds could result in paying off the bonds sooner and allowing the two counties to retire the local option GRT sooner than projected, but it would create an operating budget impact on NMSA and likely require general fund revenues to offset this loss.

For FY17, NMSA will have exhausted its fund balances and will rely on general fund support and revenues generated through operations. The agency estimates operational revenues will be insufficient to maintain current expense levels for staffing, contracts, and other costs, and requested about six times as much general fund support for FY17 as it received in its FY16 operating budget.

The New Mexico Finance Authority provided the following additional analysis.

> Dona Ana County and Sierra County have both enacted the spaceport GRT. In FY 2015, Dona Ana generated $7,861,911, and Sierra County generated $487,832 in total spaceport GRT. The 75 percent spaceport GRT portion pledged to bond debt service totaled $6,262,307 in FY 2015.
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> The spaceport has two bonds outstanding, its Series 2009 ($55,810,000 par amount) and 2010 ($20,560,000 par amount). Both bonds are scheduled to mature in 2029. The following table illustrates the total debt service due for both bonds:

	Series 2009 Spaceport GRT Bonds	Series 2010 Spaceport GRT Bonds	Total Debt Service
2016	$ 4,374,586	$ 1,276,764	$ 5,651,350
2017	$ 4,373,586	$ 1,281,951	$ 5,655,537
2018	$ 4,374,836	$ 1,279,343	$ 5,654,179
2019	$ 4,376,586	$ 1,279,328	$ 5,655,914
2020	$ 4,376,486	$ 1,282,304	$ 5,658,790
2021	$ 4,371,886	$ 1,287,576	$ 5,659,462
2022	$ 4,375,368	$ 1,285,211	$ 5,660,579

2023	$ 4,373,418	$ 1,286,194	$ 5,659,612
2024	$ 4,375,855	$ 1,285,222	$ 5,661,077
2025	$ 4,374,705	$ 1,287,454	$ 5,662,159
2026	$ 4,374,480	$ 1,287,646	$ 5,662,126
2027	$ 4,371,930	$ 1,290,642	$ 5,662,572
2028	$ 4,372,030	$ 1,291,342	$ 5,663,372
2029	$ 4,374,393	$ 8,794,760	$ 13,169,153

Assuming that spaceport GRT revenue generated in Dona Ana and Sierra counties remains level to FY 2015 actual receipts, estimated FY 2016 excess spaceport GRT revenue is approximately $611 thousand. If no other bonds were issued by the spaceport, the accumulation of excess spaceport GRT revenue into a sinking fund would accelerate the retirement of the Series 2009 and 2010 bonds by approximately a year (i.e. bonds would be paid off one year earlier in 2028).

SIGNIFICANT ISSUES

Without this revenue or general fund revenue to offset the loss, NMSA would have to substantially curtail operations in FY17. Without certainty regarding the FY17 general fund appropriation for the agency, it is impossible to estimate what personnel, contracts, or programmatic functions would be cut, but NMSA reports it may not be able to operate in FY17 without this funding. The agency states it would be in default of contractual obligations to its tenants and face potential lawsuits for breach of contract.

NMSA provides the following additional analysis.

> The agency has been receiving this revenue since 2011. The average amount varies per year but has historically been about $300 thousand to $630 thousand. Unlike the gross receipts tax bond proceeds that can only be used for construction and pre-operations, the excess pledged GRT revenues can be used for operational purposes per determination of the New Mexico Finance Authority (NMFA). This is extremely important to the spaceport at this point prior to realizing revenues from flights by the spaceport's anchor tenant Virgin Galactic (VG), and unfortunately, VG had a major setback with the October 2014 spaceship crash. NMSA has other customers and is greatly increasing its business development efforts as well as broadening its business base; however, Virgin Galactic remains the largest revenue source for the agency.
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> Spaceport America is entering a very critical stage in its development. Fiscal years 2016 and 2017 mark years when bond funds are exhausted and maintenance costs are increasing for an aging spaceport. Expenses formerly covered by bonds must now be covered by the operating budget, and new requirements like increased maintenance costs must also be covered by the operating budget. Much is resting on when Virgin Galactic starts flying, which is not expected until FY18. This excess pledged GRT revenue is a lifeline for the spaceport as it can be used for operations, unlike the bond funding, and allows the spaceport to keep its doors open during this critical time. The revenue can either be used 1) by NMSA in its current fashion for any lawful purpose, or 2) to pay off the bonds beginning in 2019 (not permitted until 10 years after the first bond issuance). Without this revenue now, the taxpayers' more than $200 million investment in the spaceport will be in jeopardy.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

The bill relates to SB 145, which amends some portions of relevant statutes as part of a larger set of changes to the tax code.

OTHER SUBSTANTIVE ISSUES

Spaceport America was built with the expectation Virgin Galactic would be the anchor tenant and launch customers into near-space following completion of the necessary infrastructure. The company originally planned for commercial launches to begin as early as 2010, but Virgin Galactic suffered numerous setbacks and delays and has not completed building its replacement spacecraft after a fatal midair accident in October 2014. A potential commercial launch date is likely at least a year away due to the need for additional design and safety testing, leading to continued risk and uncertainty regarding launch revenues for NMSA. An adverse lease provides minimal payments until commercial flights begin, increasing the need for the agency to minimize costs and attract other companies and ancillary businesses to the site.

A significant portion of NMSA's expenses comes from a contract with Fiore Industries to provide emergency and security services. Initially, this contract staffing of security guards and firefighters cost $500 thousand per year, but for FY16, the agency projects it will spend $1.7 million for 12 firefighters, eight security guards, and two administrators, and the agency requested funding to increase the contract to $2.3 million for FY17. This represents one-third of the FY17 budget request despite minimal, infrequent launch activity at the facility.

The Legislature appropriated a total of $142.2 million in capital outlay funding to the Spaceport Authority for planning, design, and construction of Spaceport America and related infrastructure. Including the bond proceeds from the incremental gross receipts taxes imposed by Sierra and Doña Ana counties, the total cost rises to $218.5 million.

JC/jo