

SB-30 –FN

Relative to municipal economic development and revitalization districts

Summary – The purpose of this legislation is to enable the redevelopment of the former Balsams Grand Resort located in Dixville.

An experienced developer has been secured who wants to restore the Balsams to its historic grandeur and expand it into a year-round destination resort, eventually creating the largest ski area in the Northeast with over 2,900 housing units.

Redevelopment of the Balsams is especially difficult because of its remote location. Given the limited accommodations and amenities in the area, improvements cannot be slowly phased in; one needs to create a resort with adequate facilities and housing to draw individuals and fully service them once there. Accordingly, Phase I of the Balsams expansion and redevelopment plan will involve roughly \$143 million in investment split roughly in half between construction of infrastructure and ski, golf, and other recreational amenities and the development of hotel beds and for-sale real estate to provide accommodations for visitors to the resort.

The size and scope and location of the proposed Phase I also create financing problems. The proposed developer has secured over \$76 million in equity and subordinated debt and an additional \$19 million in construction financing for the for-sale housing, but need an additional \$48 million in secured debt to complete the improvements. The developer has secured a private lender for \$20 million of this sum but needs another \$28 million.

Legislation – The amended SB-30 would enable the developer to complete the financing for Phase I by essentially leveraging future property tax revenues to borrow the necessary \$28 million. Specifically, the bill establishes the Balsams property as a development district, authorizes the issuance of up to \$28 million in bonds to provide financing for development of the district, and authorizes assessments against the Balsams property dedicated to repayment of the bonds.

The proposed development district is modeled on what the State did for Pease (162-G), providing State guaranteed bonds to encourage investment, and the State's existing tax increment financing legislation (162-K), but it has been modified to reflect the unique circumstances in this instance - namely a district located in an unincorporated town with no tax

rate. The Coos County delegation could request that the Governor and Executive Council award an unconditional State guarantee on up to \$28 million in bonds for the redevelopment of the Balsams district. The district would work like a tax increment financing district (TIF), with any net property tax revenue generated from the development being used to repay the bonds, but it would also allow all property in the district, including the for-sale housing, to be assessed by the County to repay the bonds. This will enable the bonds to be repaid solely from revenue generated by the Balsams; the project will have no tax impact on any other residents of Dixville of the county.

For example, debt service on the bonds would be approximately \$1.775 million/year. Assuming a first phase development cost of \$143 million and an assessed value of 2/3 that amount, the property in the district would be assessed \$18.60/\$1,000, in lieu of taxes, for repayment of the bonds. In accordance with municipal tax law, any unpaid assessment would constitute a first priority lien so the County would be insured of receiving payment.

Risks – There are 2 major risks associated with the project: 1) the developer experiences cost over-runs and is unable to complete construction of Phase I of the resort; and, 2) the developer builds, but is unable to sell, all the for-sale housing and goes bankrupt.

Construction period risk will be mitigated by the fact that the developer has extensive prior experience in the development of similar resorts. The State guaranteed bond would be closed contemporaneously with all the other funding sources. The bank will serve as lead lender and require the developer to have all permits and approvals in hand before loan closing. The developer will also be required to have firm, fixed price contracts for the improvements and use a bonded general contractor.

Market risk is more difficult to control. The developer will be required to prove market demand by securing at least 100 reservations for real estate purchases, equivalent to \$15 million in sales, prior to closing the financing. Since the housing will be constructed using only private capital (equity, construction loan and subordinate debt), there would be no direct loss to the State guaranteed loan if the developer is unable to sell all the housing. All the Phase I units would still be built in this scenario so there would be an adequate bed base to support the resort.

Failure –The \$28 million State guaranteed loan would have a pari passu (equal) first mortgage security interest in the \$73 million resort with the \$20 million bank loan. State and bank funding would be 65% of the project cost (\$48 million/\$73 million), and we will require an

appraisal showing a maximum 80% loan-to-value ratio so there should be adequate collateral coverage to insure we could recover all the State funds.

If the redevelopment of the Balsams were to fail, the State would have to work with the bank to protect its financial interest and recover its funds. The State and bank would foreclose on the resort and sell it to a third party. If the sale price was less than \$73 million, the developer would lose all its money first, and then any shortfall between the sale price and the amount of outstanding bank and State guaranteed debt would be split proportionately between the 2 parties. Since the State debt would be repaid from property assessments, the State would continue to receive payments throughout this process.