

CAPITAL BUDGET OVERVIEW COMMITTEE

Legislative Office Building, Room 201

Concord, NH

Tuesday, June 25, 2013

MEMBERS PRESENT:

Rep. David Campbell (Chair)

Rep. John Cloutier

Rep. Gene Chandler

Rep. John Graham

Rep. Ken Weyler

Rep. Bernard Benn

Sen. David Boutin

Sen. Jim Rausch

Sen. Sylvia Larsen

Sen. Nancy Stiles

(Convened at 11:03 a.m.)

1. Acceptance of minutes of the May 14, 2013 meeting.

CHAIRMAN CAMPBELL: Call the Capital Budget Overview Committee to order for this meeting. And the first order of business is acceptance of the minutes of May 14, 2013.

****** SEN. BOUTIN: So move.

CHAIRMAN CAMPBELL: Moved by Senator Boutin.

SEN. STILES: Second.

CHAIRMAN CAMPBELL: Seconded by Senator Stiles. Ready for the question? All those in favor say aye? Opposed? The minutes are accepted?

******* **{MOTION ADOPTED}**

REP. WEYLER: I'll abstain. I wasn't here.

CHAIRMAN CAMPBELL: Representative Weyler abstains because he wasn't here.

2. Old Business:

CHAIRMAN CAMPBELL: Old Business. Being none.

3. New Business:

CHAIRMAN CAMPBELL: New Business. We have one item today, and that is one action item, I should say. And that is the Cannon Mountain Advisory Commission, CAP 13-033. Requesting approval of recommendation of the Cannon Mountain Advisory Commission to implement the Cannon Mountain Aerial Tramway & Ski Area Capital Improvements Project to be funded in the amount of \$717,000 by the Cannon Mountain Capital Improvement Fund as specified in the request dated June 10, 2013. There are representatives of DRED here. Commissioner Rose is here and some of his people. Commissioner, you want to come up and just address us quickly on this so we are --

JEFFRY ROSE, Commissioner, Department of Resources and Economic Development: Yes, Mr. Chairman.

CHAIRMAN CAMPBELL: Come on up.

MR. ROSE: Thank you.

CHAIRMAN CAMPBELL: Let us know what this is all about.

MR. ROSE: Sure. And I'll ask JD DeVivo to join me if that's okay.

CHAIRMAN CAMPBELL: Sure.

MR. ROSE: He's our General Manager up at Cannon

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Mountain. And it's a pleasure to come before you here this morning -- this morning. And thank you for the opportunity.

We are pleased to submit this request before the Overview Committee. As outlined within statute, we -- we have an Advisory Commission who then makes recommendations for infrastructure improvements that we have the ability to then bond, and this is part of our long-term capital program and investments into Cannon Mountain. Try to make sure that we have a, you know, a world-class, first-rate ski area. This will allow us to make improvements to our snowmaking capabilities, some of our maintenance requirements, and some of our electrical needs that we have. So we're happy to try to answer any questions that you might have. But this is something that we would like to have your approvals and then bring forward to the Governor and Council for their approval. And it does have some time sensitivities just based on the nature of this is the down time for the mountain where we get to make our infrastructure investments in getting ready for next year's ski season. Thank you.

CHAIRMAN CAMPBELL: Question. Do you have -- can you tell us what the status of the fund is as far as the bonding that you've done and how that works in terms of Sunapee and the Capital Improvement Fund?

MR. ROSE: Sure. And I'll be happy to provide you a schedule, actually.

CHAIRMAN CAMPBELL: I just want to go over it.

MR. ROSE: Okay. Got it. So does everybody have a copy of the schedule? Okay.

CHAIRMAN CAMPBELL: I'd like you to go over it just in terms how this works and what the pressure this puts on it

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and how it will work going forward.

MR. ROSE: Sure, absolutely. If you don't mind, I'll ask my business manager, also, Tom Martin, to join us for the walking through the schedule a little bit here. But if you look on Line 11, that is the lease payment that we receive from Sunapee. And if you look on Line 13 that is our existing Debt Service. And Line 18 then shows the delta between those two. This additional \$717,000 which is identified on Line 15 would then show up in Fiscal Year 2015 and you can see what that will do to our overall Debt Service.

CHAIRMAN CAMPBELL: So on Line 20 the projected balance is your overall Debt Service?

MR. ROSE: No.

TOM MARTIN, Business Manager, Department of Resources and Economic Development: No, that's the cumulative deficit in the Cannon Mountain Capital Improvement Fund. So the total Debt Service is on Line 16.

CHAIRMAN CAMPBELL: Oh, yeah, I see.

MR. MARTIN: Then on Line 19 is -- is part House Bill 2 that's before you. Includes a transfer to the Park Fund in Fiscal Year '13 of 650,000 and 50,000 to the Fish and Game Rescue Fund. And then the balance in the Cannon Mountain Fund, operating fund, would transfer into the Cannon Mountain Capital Improvement Fund to work down that deficit. We were very active during the Senate phase trying to come up with the funding mechanism to address this deficit that's been in existence for several years. And we think those estimates are reasonable. And then Fiscal Year '14 and '15, House Bill 2 requires 500,000 to be transferred from Cannon to Parks as a critical funding

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source for the Park Fund. And then the balance we're estimating to be 150,000. That's our solution to moving forward.

CHAIRMAN CAMPBELL: Senator Rausch.

SEN. RAUSCH: Thank you, Mr. Chairman. I guess mathematically, how do we pay for it when we always have a deficit? I mean, Line 18, we are -- we don't have enough money to pay for the debt. Your 70 -- 70,000 and then you're projected balance is 168,000. You never have enough money in the fund to cover your debt.

MR. ROSE: So I think it's important to note that this is -- this is the capital. This is not the operating budget. We have been actually running at a surplus for, what, five of the last six years.

JOHN DEVIVO, General Manager, Cannon Mountain/Franconia Notch State Park, Department of Resources and Economic Development: Hm-hum.

MR. ROSE: What we do, we take that surplus then and then we put --

CHAIRMAN CAMPBELL: Operating surplus.

MR. ROSE: Operating surplus from Cannon, and then that money goes, as Tom had just mentioned, that goes into the Parks -- overall Parks Fund and \$50,000 of that will go into Fish and Game as well. The -- the way that the statute was designed with the lease of Sunapee is the revenues that we receive from Sunapee were, in theory, to try to then pay off the debt for the infrastructure investments that we needed to make as a state into Cannon Mountain. Over the last 13 years, the delta between what has come in from Sunapee to where we are today is that bottom line on 20, in

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2013, that's that \$292,000. So we do anticipate, if you look at the revenues on Line 11, that's what we anticipate continuing to be our revenues moving forward from the Sunapee payments. And then you can see that we do -- we do have the funding available to pay off our Debt Service. And, in fact, when you look and then you add in some of the transfers from the Cannon Mountain operating revenues, the surpluses that we anticipate, we feel as though that we're actually in a pretty good position. And if you look at Line 20, you'll see that we believe that we will be bringing down that projected balance. And we have been working closely with the State Treasurer, as well as the Senate Finance, to try to make sure that we were in a good fiscal position to pay down that deficit. So this is within the statute which allows the Cannon Mountain to bond up to \$6 million for capital improvements into Cannon Mountain. We are currently running somewhere, 3.2, I think, was that the number? So this was still well within that authority that's outlined within the statute.

SEN. RAUSCH: So Line 19 shows your transfer from your operations.

MR. ROSE: Correct.

SEN. RAUSCH: And what happens now if we really have bad winters and you do not have an operational surplus? How do you pay, let's say, in -- could be even in '15, 'cause you're already projecting to transfer 150,000 and that's from your operations. What happens if you don't have an operational surplus?

MR. ROSE: Well, we would still have the revenues that are coming in via -- we still have the revenues coming in via the Sunapee lease payment, which you can see in the 2013 does reflect that number is down a little bit because of the poor ski season in 2011. But we do have -- we will

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have revenues in a position where we believe that we can still satisfy our obligations and meet our Debt Service.

SEN. RAUSCH: Well, according to your sheet, if you don't have an operational surplus to transfer, you don't have enough, your 63,000 short to pay for your Debt Service. So if you don't have an operational surplus, where do you get the money to pay for it?

MR. ROSE: And so -- fair enough. And we do -- this would be after the \$500,000 would then go, you know, go into the Parks System. But we would still have revenues coming in to be able to meet our --

CHAIRMAN CAMPBELL: Other park revenues. It would be other State Park revenues; is that correct?

MR. ROSE: The \$500,000.

CHAIRMAN CAMPBELL: If it was short from -- what Senator Rausch is saying, if it's short from Sunapee lease and Cannon doesn't make enough money and it's going to be subsidized somewhere else, you're saying it comes out of the Park System.

MR. ROSE: Is that right though?

MR. MARTIN: Generally, the Park revenue stays in the Park Fund. And our challenge really is to collectively from all of our Park funds to be able to manage the Cannon operating, the Parks operating, which includes Hampton Meters, and all the enterprise funds, to be able to collectively bring us forward to a positive situation. And we have been able to do that in the last couple years with Cannon Mountain operating with deficit -- deficit situation, and the Park Fund is in a big deficit situation.

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So our strategy has always been the last couple years just to collectively look at all the funds and how we manage them through adverse weather conditions and that is a risk, you know, with the weather. But Cannon has been profitable the last five out of six years. Fiscal Year '12 was a challenging year. And if we have that again that would be problematic. But we continue to work collectively in all of our different funding sources to move towards a positive balance. And we have done it in Cannon operating and in the Park Fund. \$2 million deficit in the Park Fund. Now we are positive going forward in the next year.

So our last fund that we are attacking is this Cannon Mountain Capital Improvement Fund. And for us to access the capital needs that we need for Cannon to continue to be competitive, we worked towards using the surplus from the Cannon fund to work down this deficit. We think that's a conservative projection. But, you know, we didn't want to be over ambitious with our projections going forward.

SEN. RAUSCH: If I might?

CHAIRMAN CAMPBELL: Yeah.

SEN. RAUSCH: I'm not questioning your need to do the project. It's just that there's several of us here on this Committee that there are a lot bonding issues that are paid for from a fund. And one of the things we look at can that fund support that Debt Service. And always we have to demonstrate that the fund is in a positive mode after the Debt Service is accounted for. This is the only fund that I have come up against where after you look at the Debt Service every year going forward until 2018 the fund doesn't support the bonds, unless you are taking from another operational fund. But we don't do that. Generally, the bond is supported by that fund. And that's my concern here is that so far, and maybe somebody could correct me,

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this is the only fund that I have run across where somebody has come in and asked for additional bonding authority to do a project and then displayed that the fund balance is negative. That's my only concern, not the project, not the seven hundred something thousand you need, it's just the fund negativity that is my concern.

CHAIRMAN CAMPBELL: Can you respond to that?

MR. ROSE: Do we have the history of what that fund balance has been?

If you look through the projected balance, we are projecting that that come -- that will be coming down and that we are working towards eliminating that. And, in fact, we had proposed in the Senate Finance a means to try to actually eliminate that within three years. And, in fact, the State Treasurer had actually recommended to us that we do not do that. That we actually continue going down this particular path. And she actually serves on the Cannon Mountain Advisory Committee and helped us generate the language in HB2 to try to help address this specific thing in working with her into coming up with the -- with the Debt Service over the life of this particular bonding. And it is, again, it is within the statutory authority that -- that the Cannon Mountain has for its long-term capital investments. And we do feel comfortable with where we are in terms of being able to try to meet the Debt Services that we have. And so, again, I recognize your question, Senator, and am happy to try to get you some of the longer term history in terms of where it's been over the last 13 years and where we continue to see it projecting forward. In fact, we do have a schedule here that might be of assistance.

CHAIRMAN CAMPBELL: Representative Benn, then Senator Boutin.

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REP. BENN: Well, I sort of had some similar concerns. But I just wanted to say that in HB2 we did manage and the Treasurer did make a request and she had two sections that one was the new section that the Senate put in and another was an Amendment to the House position and both of those did survive. And so if the Treasurer's correct, and we pass the budget tomorrow, in HB2 tomorrow, at least those provisions will be there according to what the Treasurer would like.

CHAIRMAN CAMPBELL: Senator Boutin.

SEN. BOUTIN: Thank you, Mr. Chairman. Maybe Representative Benn answered the question. I don't know. I'm just looking at the Friday, April 12th of 2013 minutes of Cannon Mountain Advisory Commission. Says Treasurer cautioned, however, that while the CMCIF is estimated to have 2.2 million in capacity by June 30, 2013, the annual payments from Mount Sunapee have totaled cumulatively \$372,000 less than what's been paid out on bond issuances since 1999. The Treasurer advised a system must be devised in order for Cannon/New Hampshire Parks to cover any difference in what is paid into the CMCIF Fund by Mount Sunapee and what is paid out to cover bond issuances, and for Cannon and New Hampshire Parks to annually pay down the \$372,000. Then, Mr. Chairman, it goes on and says, in that further in that discussion there was a position set forth by Director Bryce that first 500,000 surplus to Division and Treasurer said that it was against that recommendation. So -- and so is that addressing all of this?

REP. BENN: I believe what the Treasurer has put in or had the Senate put in modified the House position goes along with what she was recommending in this in the minutes that I read for the first time last night, too.

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CHAIRMAN CAMPBELL: Go ahead.

SEN. BOUTIN: So, Mr. Chairman, I guess the question is for me, and I don't know who can answer it, but is this 372,000 going to be paid down so that --

CHAIRMAN CAMPBELL: Can you help us?

SEN. BOUTIN: Before we incur upon that.

CHAIRMAN CAMPBELL: Can Mike from LBA help us?

MIKE KANE, Deputy Legislative Budget Assistant, Office of Legislative Budget Assistant: Yeah. I can kind of give you a history and Tom will be able to back me up here.

As far as the fund has been in a negative since 2003 and it's been allowed to operate in a negative. At that time it was about \$17,000. It went up -- the negative went up to \$495,000 in 2008 and it's continued to operate. That was the peak. And it's slowly been worked down to 2012 was about \$235,000 deficit. So it's been operating in deficit for over 10 years. They do continue to make their Debt Service payments. The State just allows this fund to continue to carry a negative. I think what the Department is projecting is going forward for the transfers to net revenue for Cannon operation, the only things they can really put in there is what's in statute as Representative Benn said. What Tom mentioned before, 2013 is specific House Bill 2 section about the \$80,000. What is going to be voted on tomorrow in House Bill 2, the Department's estimating about \$150,000 of net Cannon operation going forward. My guess is they didn't put anything for 2016 forward because they don't know what the Legislature is going to do. But in the end, that balance has been -- continues to be eaten down. I think what the Department is trying to show you in this sheet is that even with that

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additional amount, that balance continues to -- is below that peak level of 495. And I think what's not on this sheet and Tom might be able to touch is the principal payments are going to drop dramatically in 2020. You're going to pay off a lot of previously issued bonds. I don't know if Tom can touch on that at all.

CHAIRMAN CAMPBELL: Go ahead. Tom.

MR. MARTIN: Yeah. The Fiscal Year 2019, the Debt Service as projected 625,000, and then Fiscal Year 20 it's 275,000. And I guess what we are saying is we are doing everything we can to work to move all of our funds net positive. So these are conservative projections for '13, '14 and '15. If profits in Cannon are more, that gets transferred to the Capitol Improvement Fund. So it's not capped at 150,000 per year.

CHAIRMAN CAMPBELL: Commissioner Rose, you stated that this is a -- this project is critical for timing. Can you touch on that a bit?

MR. ROSE: Sure. And I'll have -- JD, feel free to chime in on this as well. But while we have a long lead time in terms of trying to order the supplies and the parts that are required and then the maintenance and we work off a back date of trying to make sure that we have everything in place and tested and fully operational for the upcoming ski season. So working backwards, the timing is really critical that we're in a position to be able to order the long lead parts to get the materials in order to do the upgrades that are necessary.

CHAIRMAN CAMPBELL: To have the project completed by what time frame?

MR. ROSE: Mid-November.

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CHAIRMAN CAMPBELL: For the next ski season.

MR. ROSE: Correct.

CHAIRMAN CAMPBELL: Representative Benn.

REP. BENN: I have one question about the Sunapee lease. How does that work? I mean, are these projections or these actual numbers that you know you will collect on that?

MR. ROSE: They are projections. But if you look at historically where they have been, this is pretty comfortable within their plan and within what we anticipate. It works off of a fixed base which is adjusted for CPI, as well as then 3% of their gross revenues.

REP. BENN: Thank you.

CHAIRMAN CAMPBELL: What's the pleasure of the Committee? I'm sorry, Representative Weyler.

REP. WEYLER: There's always been talk of Okemo Mountain diverting money because they sell the tickets in Okemo that can be used over at Sunapee. Have we had a good audit on that to see how much that diversion is going on?

MR. ROSE: Tom.

MR. MARTIN: We -- last year, the previous summer we sent out our internal auditor to examine the books. That item did not come up in his review. We will be going out there again to check their books again 'cause part of our job is not just accept the payments, but to still manage the contract. And we will make sure to review that transaction.

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REP. WEYLER: Wonder why he didn't look at that when he went there?

MR. MARTIN: Maybe he did. I just wasn't aware of that coming up. He reports to me, but I don't recall that being raised as an issue.

CHAIRMAN CAMPBELL: You will raise it when you talk to him then?

MR. MARTIN: Definitely.

REP. WEYLER: Okemo was doing more marketing for the joint thing than they actually were at Sunapee, then the money would all stay in Vermont. It wouldn't help us much.

MR. MARTIN: I understand that. I appreciate that.

REP. BENN: Is this a correct summary of what's happening is basically we have been -- the fund has been operating in deficit for quite a few years. We are asking to continue operating it in deficit until 2018 at which time it looks like the actual revenues will be enough to be more than the actual Debt Service, at which time it will start to reduce. Is that a fair summary?

MR. ROSE: I think that's a fair summary. You know, and our objective is to reduce that deficit as quickly as possible, and now we'll have the ability to transfer any revenues or, you know, surpluses to paying down that deficit which we didn't have until we got this ability within HB2, which will hopefully be passed tomorrow. So we are very aware of it and it is a priority to us to try to do just that.

CHAIRMAN CAMPBELL: Senator Stiles.

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SEN. STILES: Thank you, Mr. Chairman. How much are you projecting your increase in revenues based on the improvement?

MR. ROSE: JD, do you have a thought on that in terms of what the revenue increase would be as a result of this? Even though I will say that, you know, based on the very competitive nature of the ski industry, you know, you always want to make sure that you have, you know, snow-making capability, efficient operations, you're taking into as much consideration as energy efficiency as you can, improving the snow guns and, obviously, safety is always paramount. So I think it's largely due to the overall maintenance of having a good first-rate ski area. I don't know if there's any specific, you know, translation in terms of how we project that within our revenues.

MR. DEVIVO: Thank you, Senator. For the record, my name is John DeVivo, General Manager at Cannon Mountain Aerial Tramway & Ski Area, Franconia Notch State Park. There's no way that I can quantify that with a dollar figure. From a snow-making perspective, the moves we are looking to make will give us a tremendous improvement in flex due to the weather. We'll be able to make snow earlier, we'll be able to make more of it. Same thing with a frost-freeze event with recovery time. From a lift maintenance perspective that is our primary lift, right up the middle. Have to have that running at all times and from water and electrical system perspective. Down time is also costly, and that will save us a tremendous amount of time with efficiency, should save a lot of money from electrical perspective, but I can't give you a dollar figure.

SEN. STILES: Okay. Thank you.

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CHAIRMAN CAMPBELL: What's the pleasure of the Committee?

** SEN. LARSEN: Move approval.

CHAIRMAN CAMPBELL: Senator Larsen moves --

REP. CLOUTIER: I'll second that.

CHAIRMAN CAMPBELL: -- approval of the item. Representative Cloutier seconds it. Further discussion? Seeing none. All those in favor say aye? Opposed? The item passes. Thank you, gentlemen.

*** {MOTION ADOPTED}

4. Miscellaneous:

5. Informational:

6. Date of Next Meeting and Adjournment.

CHAIRMAN CAMPBELL: Thank you, gentlemen, for your time today.

There are a couple of informational items which are in the packet which we're not going to go over now because we're running a little late. It's -- I'm going to adjourn this. Just let you know that, you know, slightly different membership but we are going to have -- I don't plan to have any meetings over the summer unless something critical comes up. So we will probably meet next in September and I'll give you plenty of notice and consult with you as far as your schedules go. With that, motion to adjourn.

** SEN. LARSEN: So moved.

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REP. GRAHAM: So moved.

CHAIRMAN CAMPBELL: All those in favor say aye? We're adjourned. Thank you.

(Adjourned at 11:30 a.m.)

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CERTIFICATION

I, Cecelia A. Trask, a Licensed Court Reporter-Shorthand, do hereby certify that the foregoing transcript is a true and accurate transcript from my shorthand notes taken on said date to the best of my ability, skill, knowledge and judgment.

Cecelia A. Trask

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