NEW MEXICO FINANCE AUTHORITY

Broadening the Use and Effectiveness of NMFA's Private Lending Programs

PRESENTATION TO THE
NEW MEXICO FINANCE AUTHORITY
LEGISLATIVE OVERSIGHT COMMITTEE

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NMFA as a Lender to Non-Public Entities

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- NMFA has been an active lender to private entities since the establishment of the Primary Care Capital Fund in 1994
- In 2003, with the establishment of the Statewide Economic Development Finance Act (SWEDFA), NMFA's ability to offer funding programs to non-public entities was expanded:
  - Direct loans
  - Loan participations
  - Conduit bonds
  - Guarantees
  - New Markets Tax Credits (NMTC)
- To date, NMFA has developed two of the five authorized programs -- loan participations and NMTC programs

NMFA as a Lender to Non-Public Entities

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- Despite this capacity, there have been several proposals to create a separate agency to provide a subset of these programs
- While these proposals were unsuccessful in getting through the legislature, the question most frequently posed was: **Why duplicate what the NMFA is already able to do?**
  - Lack of capital
  - Legislative authorization
- If the Legislature desires to have NMFA act as an economic development lender, continuation of legislative authorization should be fully considered as it impacts the quality of the loan portfolios and the demand for the program

Legislative Authorization Requirement

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- Under amendments made to SWEDFA in 2005, NMFA may only make loans to projects determined eligible by the NM Economic Development Department and authorized by the Legislature
- In 2011, the Legislature temporarily halted the legislative requirement in order to allow NMFA to timely lend Federal funds provided to the State through the State Small Business Credit Initiative
- Under current law, legislative authorization will be required again beginning July 1, 2019
- Since 2005, six authorization bills have been presented to the Legislature; five of which passed both chambers. Those bills authorized 185 projects; only three of which resulted in closed participations.

Impact of Failed Legislative Authorization in 2007

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- The program suffered a significant loss in momentum following the failure of the 2007 authorization bill
- NMFA's outreach to communities in 2006 fruitless as a result of non-passage of bill. Several banks lost clients who had been waiting for authorization to proceed. Banks shied away from the program because of the uncertainty of authorization outcome
- NMFA became known as "difficult" as a result of the legislative authorization
- It is unclear how many of the project found alternative financing, left the state for better incentives offered by other states or lost their business opportunities

Program Success Without Legislative Authorization

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- Since the passage of the temporary provision in 2011 that substitutes reporting for legislative authorization, NMFA has successfully closed 18 projects totaling $10,231,690
- 13 of these 18 projects would have had to wait nine months or more for the next legislative session for an authorization bill to be approved. These projects total $7,076,620
- The momentum in the program increased dramatically with the passage of the temporary provision and the perception that "NMFA is difficult" was reduced significantly
- To date, NMFA has participated with 13 banks in New Mexico
- The loans made without legislative authorization are higher quality loans. Eight loans have already been paid in full (three early)

Business & Bank Concerns With Legislative Authorization

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- Concern that proprietary information will not stay confidential during a legislative process.
- Concern that competitors can gain access to information (for instance, the expected start or end of construction) that will give them a competitive advantage over the business that is in a legislative process
- Businesses in a legislative process could be perceived as weak by their clients or potential business partners because it is known they are seeking "help" from the State
- Concern by bankers that other banks will compete for businesses with information gained through the legislative authorization process. Banks are constantly looking for ways to compete for new customers and the legislative authorization could provide a marketing disadvantage to community banks

What are the Business Implications of Authorization?

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- Time is money
- Business-friendly timing is key. Businesses do not work on the same calendar as the Legislature
- If businesses have to wait for legislative authorization:
  - Opportunities may be gone before their financing is complete
  - Cost of financing may increase. Pricing for the financing is based on the movement of various indicators such as the Libor, Prime and Constant Maturity Treasury Rates
  - Cost of construction may rise
- Surrounding states do not have similar legislative authorization requirements and are therefore seen as more business friendly

Primary Care Capital Fund

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- Established in 1994 through the Primary Care Capital Funding Act 24-1C-4 (HB 702, Sponsored by Rep. Olguin)
- NMFA and Department of Health jointly administer the program
- Funds directed to non-profit primary care clinics in rural and medically underserved communities
- These are 3% interest rate loans:
  - Equipment - 10 year terms
  - Land & Buildings – up to 20 year terms
- Up to 20% of annual principal and interest may be forgiven in exchange for services rendered to indigent patients
- Initially capitalized by a $5 million General Fund appropriation. To date, NMFA has made 19 loans totaling more than $11.5 million

Proposals to Broaden Use of PCCF

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- Broaden the eligible borrowers to include primary care health clinics owned by public bodies already providing these services
  - Requirement that the applicants must already be licensed providers would stay in place
- Allow NMFA to recover costs of administration

Behavioral Health Capital Fund

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- Established in 2005 through the Behavioral Health Capital Funding Act 6-26-4 (SB 284, Sponsored by Sen. Papen)
- Similar to Primary Care Capital Fund
- Jointly operated by NMFA and Human Services Department
- Finance capital needs of small non-profit behavioral health clinics with assets of $10 million or less
- Funds directed to clinics in rural and medically underserved communities
- SB 52 from 2005 Legislature authorized NMFA to capitalize fund with $2.5 million from Cigarette Tax Revenue Bonds. These bonds have been retired and the Cigarette Taxes redirected to the State

Proposals to Broaden Use of BHCF

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- Eliminate the asset cap of $10 million
- Broaden the eligible borrowers to include behavioral health clinics owned by public bodies already providing these services
  - Requirement that the applicants must already be licensed providers would stay in place
- Allow NMFA to recover costs of administration