



Benefits and Uses of the Public Project Revolving Fund



NMFA Oversight Committee

August 26, 2019



Public Project Revolving Fund (“PPRF”)

- NMFA’s “flagship” program
- Established in 1992 through the New Mexico Finance Authority Act 6-21-6.0 (SB 172, Sponsored by Sen. Eddie Lopez)
- All entities seeking a PPRF loan in excess of \$1 million must receive Legislative authorization. NMFA presents the PPRF Legislative Authorization Bill containing eligible entities and projects to the Legislature on an annual basis.
- PPRF Loans rely on a pledge of an ‘enduring’ revenue stream for security, coverage and loan cash flow.
- Loans can range from less than \$10,000 to above \$100,000,000 with a large emphasis/focus on debt service coverage and capacity on the underlying pledged revenue.
- Loans less than \$10 million receive the PPRF’s weekly established interest rates. Loans greater than \$10 million are simultaneously priced and funded with a PPRF Bond sale.



Public Project Revolving Fund (“PPRF”)

- The PPRF accounts for 89% of NMFA’s total assets and 93% NMFA’s operating revenue.
- By statute, the PPRF receives a dedicated 75% distribution of the Governmental Gross Receipts Tax (“GGRT”) to credit enhance the program.
- NMFA is legally authorized to ‘intercept’ tax revenue for loan repayment directly from the NM Taxation and Revenue Department or the NM State Treasurer’s Office. Approximately 62% of 2019 Loan Revenue has an intercept agreement in place.





Public Project Revolving Fund (“PPRF”)

➤ Qualified Entities include:

- Municipalities
- Counties
- State Agencies
- Public School Districts
- Higher Education Institutions
- Charter Schools
- Fire Districts
- Tribal Governments/Corporations
- Special Districts
- Political Subdivisions



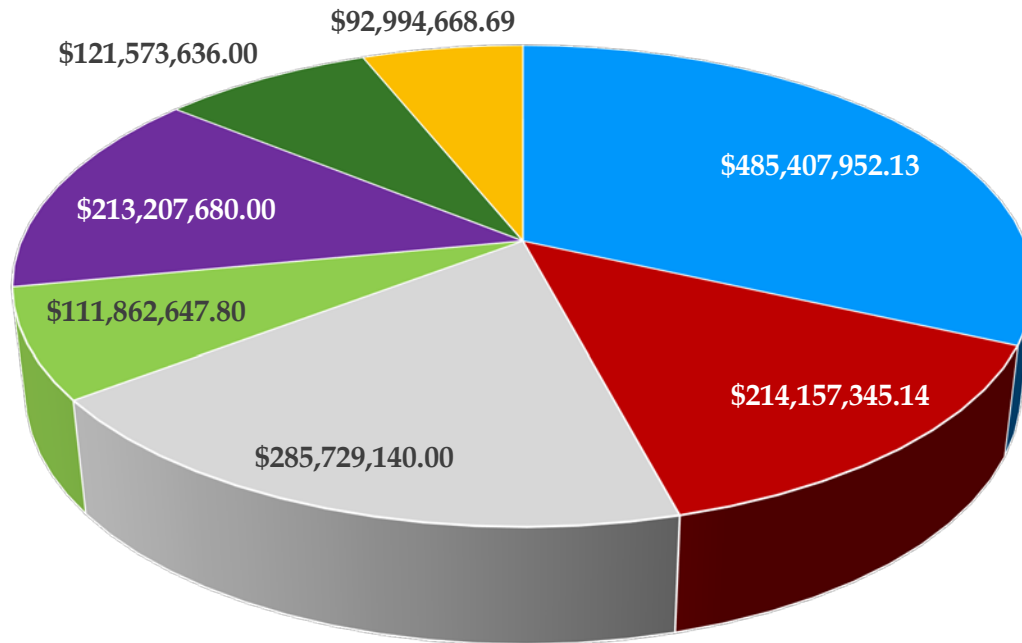


Public Project Revolving Fund (“PPRF”)

➤ Typical projects include:

- Police and Fire Equipment and Stations
- Roads
- Solid Waste Infrastructure and Equipment
- Quality of Life Projects
- Public School/Higher Ed Infrastructure and Buildings
- Property Development
- Water and Wastewater Infrastructure
- Electric and Broadband Utility Infrastructure
- Industrial Parks
- Convention Centers
- Hospitals/Healthcare
- Hotels
- Fairgrounds/Rodeos
- Museums
- Community Centers
- Golf Courses
- Certain Housing Projects (Teacherages/Workforce)

PPRF Outstanding Portfolio by Client Type

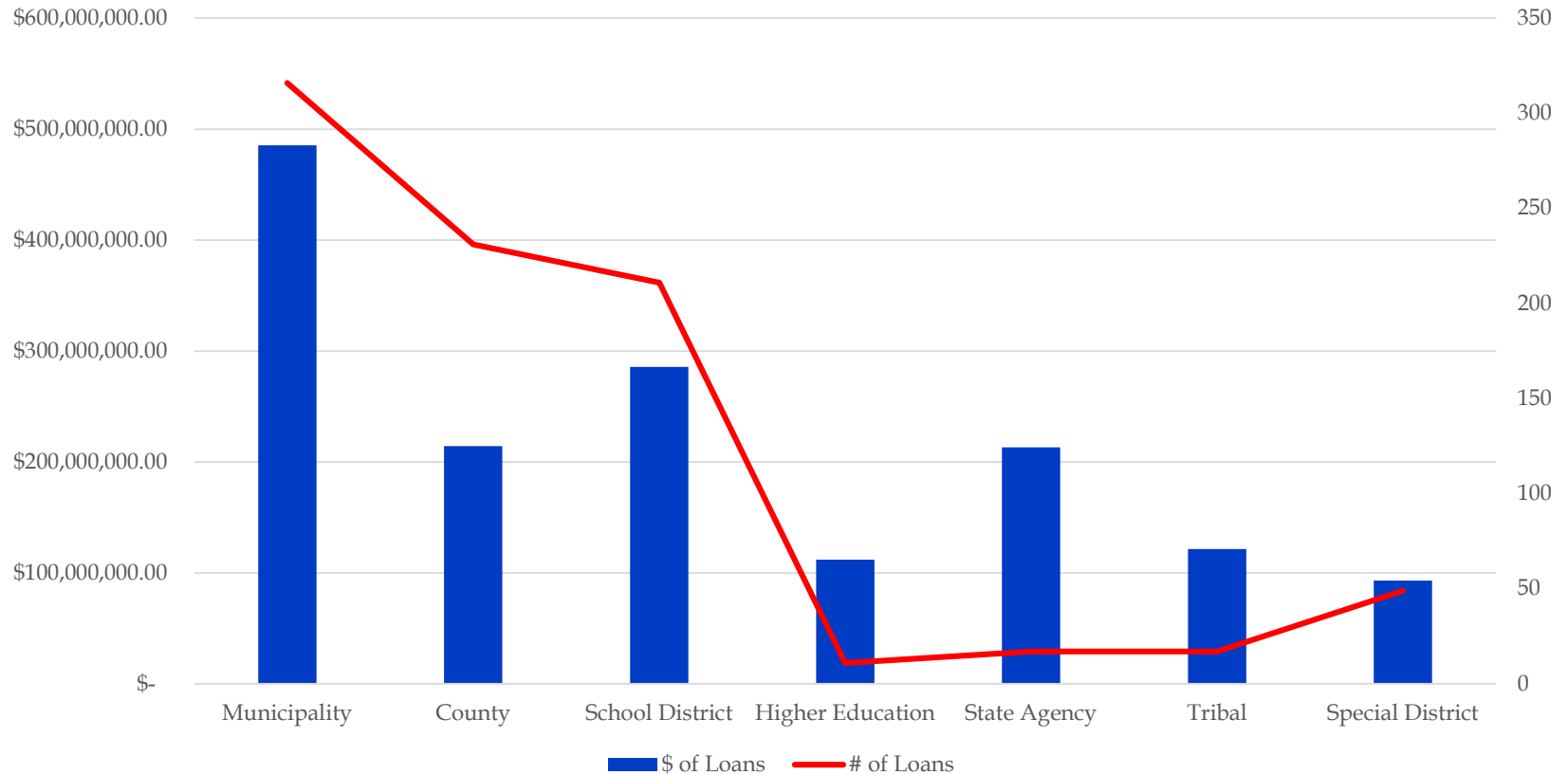


■ Municipality ■ County ■ School District ■ Higher Education ■ State Agency ■ Tribal ■ Special District

The PPRF has funded over 1,527 loans totaling over \$3.4 billion to qualified entities. The outstanding chart above represents 852 loans totaling \$1.5 billion as of July 31, 2019.



PPRF Outstanding Portfolio by Client Type



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PPRF Pledged Revenue Types

➤ Gross Receipts Tax

➤ State Gross Receipts Tax

- State Building Bonds
- Energy Efficiency Bonds

➤ Fire Protection & Law Enforcement Protection Funds

➤ General Obligation

- Ad Valorem Property Tax
- Tribal General Obligation

➤ Appropriation Revenue

- State Agency/AOC Lease Revenue
- Charter Schools

➤ Enterprise System Revenue [Net]

- Water/Wastewater/Solid Waste/Joint Utility System Revenues
- Hospital System Revenues
- Higher Education System Revenues
- Airport System Revenues

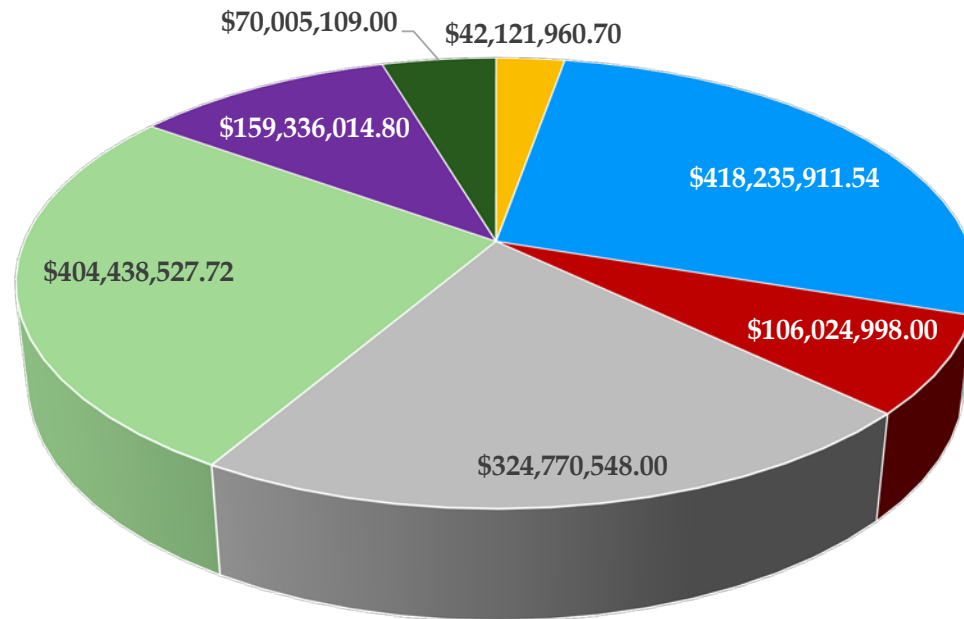
➤ Local Special Tax

- Gas Tax
- Cigarette Tax
- Lodger's Tax
- Hospitality Tax
- Tribal Taxes





PPRF Outstanding Portfolio by Revenue Type

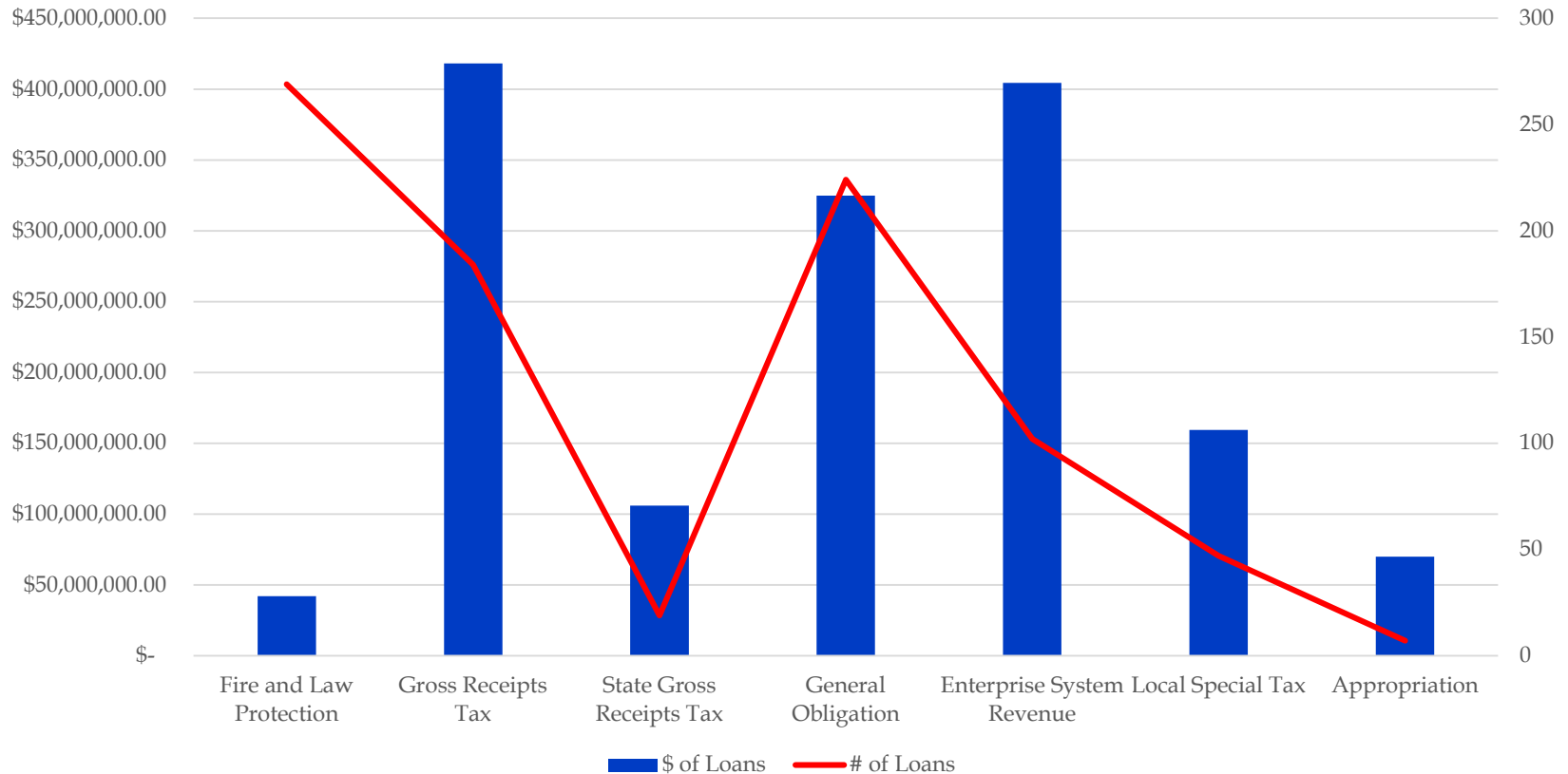


- Fire and Law Protection
- Gross Receipts Tax
- State Gross Receipts Tax
- General Obligation
- Enterprise System Revenue
- Local Special Tax
- Appropriation

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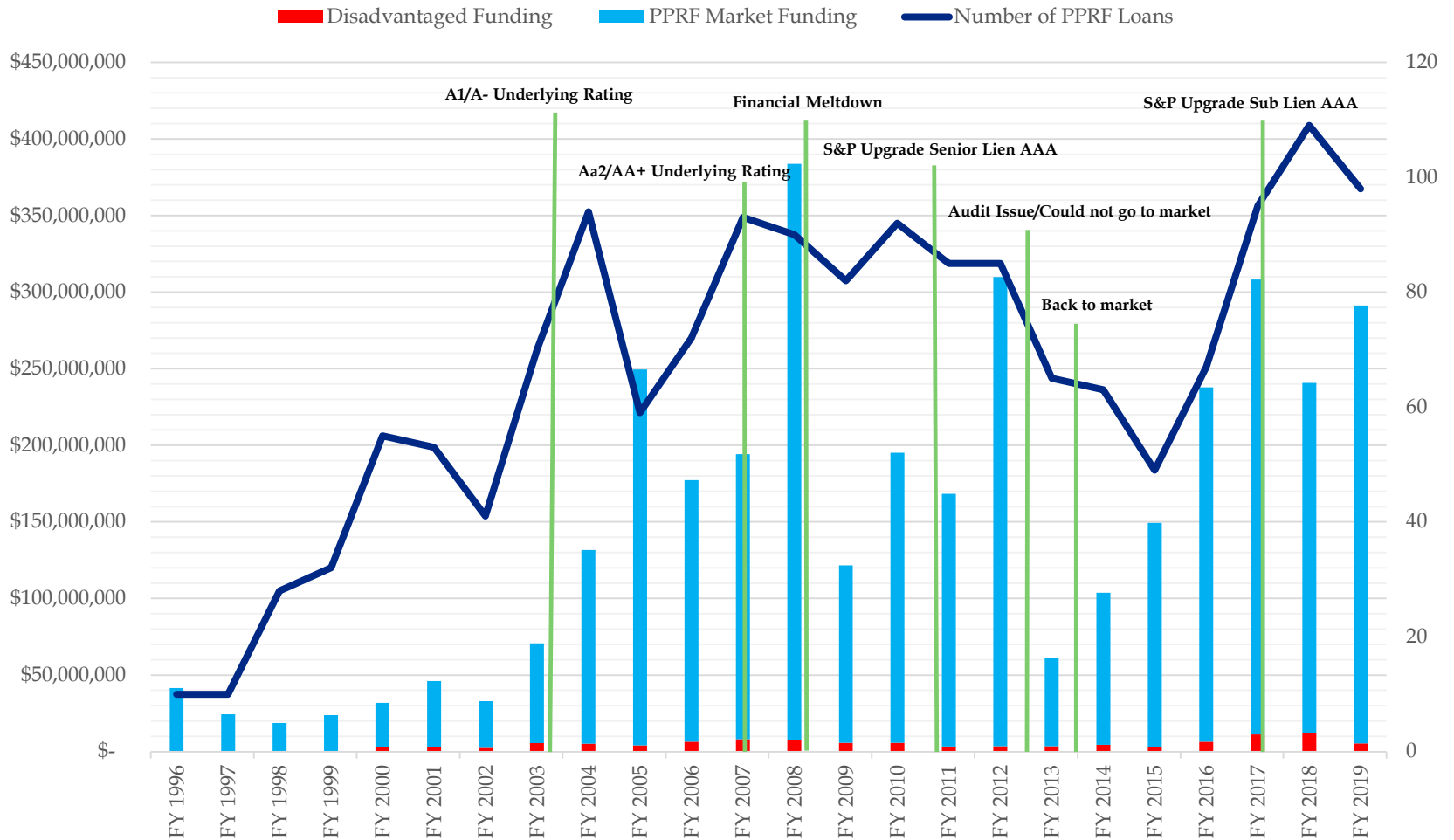


PPRF Outstanding Portfolio by Revenue Type



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PPRF Loans Since Inception

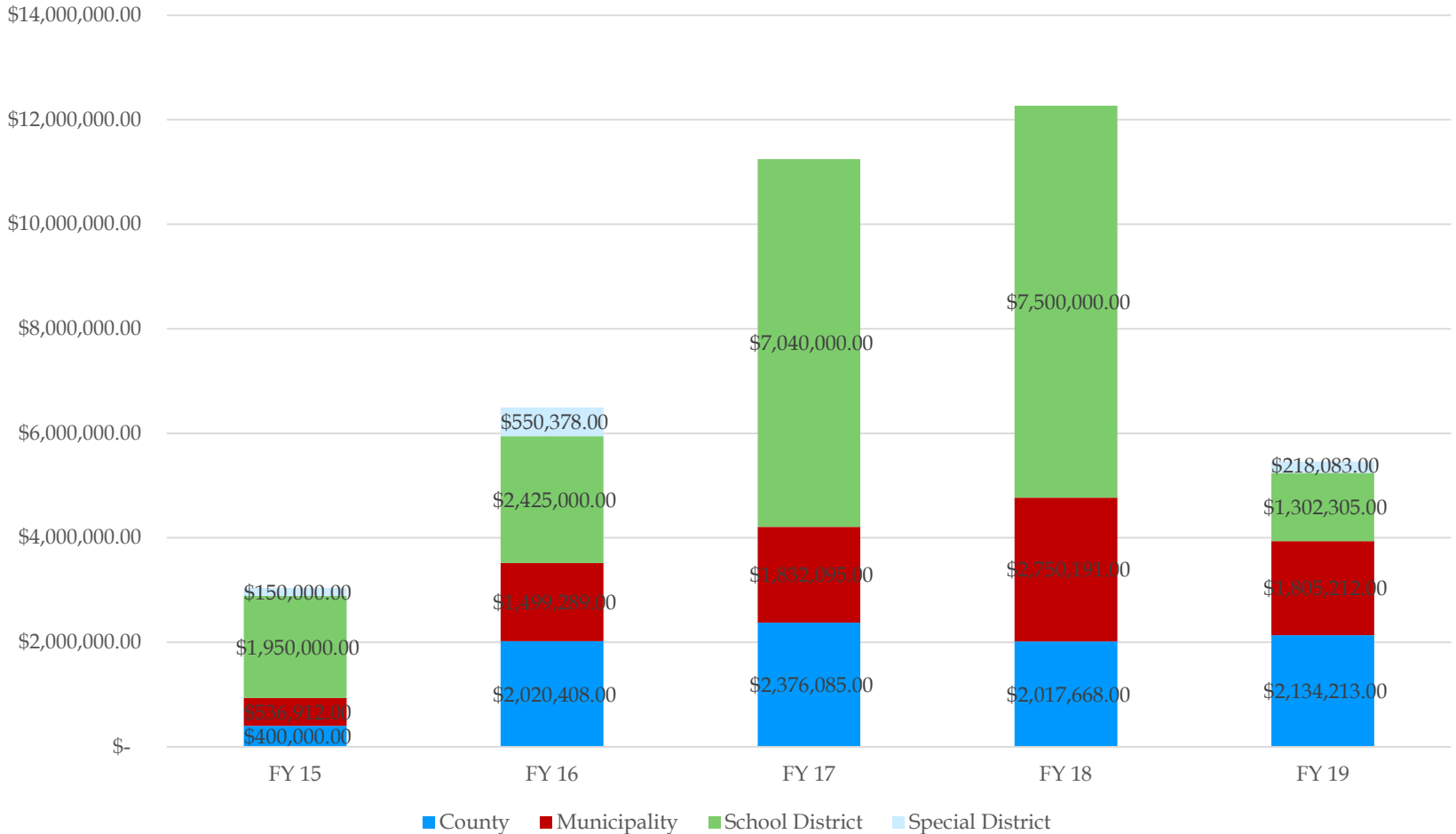




PPRF Disadvantaged Funding

- Disadvantaged Funding is provided to qualifying entities based on the client's Median Household Income ("MHI") in comparison to the State's MHI:
 - A fixed 2% interest rate may be provided when the client's MHI is between 80% -100% of the State's MHI.
 - A fixed 0% interest rate may be provided when client's MHI is less than 80% of the State's MHI.
 - Equipment loans may receive up to \$150,000 in disadvantaged funding.
 - Infrastructure and building loans may receive 10% of the PPRF loan in disadvantaged funding up to \$500,000.
 - Clients are limited to receiving no more than \$500,000 per fiscal year.
 - Disadvantaging funding will not be provided for loans in excess of \$5 million or for refunding loans.
- Disadvantaged funding is funded from PPRF Equity and not reimbursed by PPRF bonds. Disadvantaged loan repayment revenues are pledged to PPRF bond repayment.
- To ensure the sustainability of providing below-market rates, the NMFA will establish an annual baseline of 13% of GGRT proceeds for Disadvantaged Funding. This amount may be increased by the NMFA Board to a maximum of \$10 million; provided, no more than 20% of the annual GGRT received is diverted by the State for other purposes.

PPRF Disadvantaged Funding





Overview of Underwriting, Coverages and Attributes

- **Debt Service Reserve Funds (“DSRF”)** are required for many PPRF loans. The DSRF is to guard against any precipitous declines affecting the ability of the client to make its scheduled payments on the PPRF loan. DSRFs are required unless one of the following conditions exist:
 - 1) The loan is less than \$250,000;
 - 2) The loan funding is for a General Obligation Bond repaid by a property tax levy;
 - 3) The client’s underlying pledged revenue is rated at least “A/A2”;
 - 4) A Surety Policy of equal value has been secured and purchased; or
 - 5) The loan is secured by State Fire Protection Funds or State Law Enforcement Protection Funds with a minimum 2.0x coverage.

- **Call/Pre-payment features** of PPRF loans are to be matched to the call features of the bonds anticipated to reimburse the PPRF. Loans identified and approved by the NMFA Board as equity loans may have alternative pre-payment features provided that:
 - 1) The total market loan is less than \$100,000;
 - 2) For portfolio management purposes, attributes of the loan are deemed by NMFA staff to be better suited for the equity loan pool; or
 - 3) The client has agreed to pay the estimated cost associated with the alternative pre-payment feature. NMFA may still choose to bond reimburse these loans.

Overview of Underwriting, Coverages and Attributes

➤ Coverages and Additional Bonds Test Overview

| Pledged Revenue | Minimum Coverage | Additional Bonds Test |
|-------------------------------|---|-----------------------|
| Gross Receipts Tax | 1.25x | 125% |
| Fire and Law Protection Funds | 1.25x (2.0x by State Fire Marshal; DSRF policy) | 125% / 200% |
| Lodgers Tax | 1.30x | 130% |
| Enterprise System Revenue | 1.30x | 130% |
| General Obligation | 1.00x | 100% |
| Mill Levy | 1.25x | 125% |



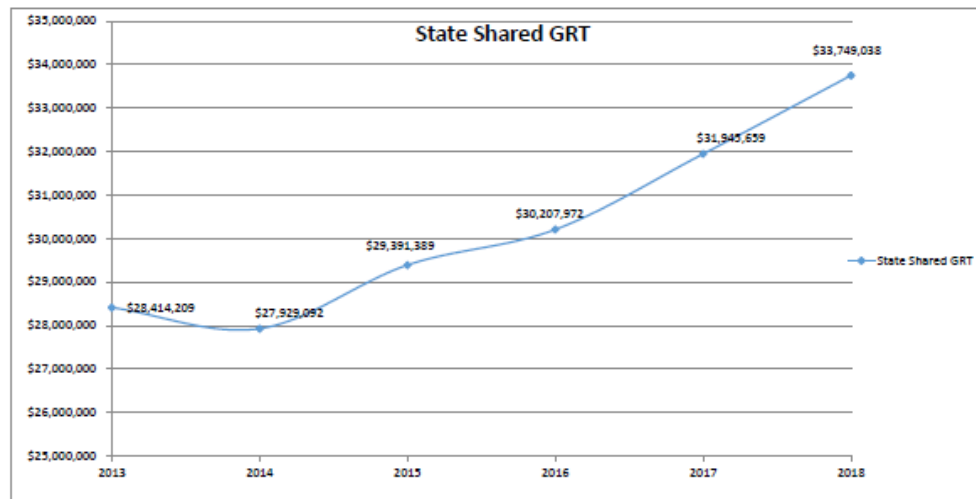


Overview of Underwriting, Coverages and Attributes

➤ Pledged Revenue determination for Coverage

City of Las Cruces

| Gross Receipt Tax Analysis | | | | | | | | | |
|----------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|---------------|---------------|
| State Shared GRT | | | | | | | | | |
| | 3 Yr Average | Year Ended June 30 | | | | | | Change | |
| | | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2018 vs. 2017 | 2017 vs. 2016 |
| June | \$ 2,405,448 | 2,983,152 | 2,924,006 | 1,309,185 | 2,680,867 | 2,219,509 | 2,351,664 | 2% | 123% |
| May | \$ 2,902,651 | 3,136,920 | 2,965,248 | 2,605,784 | 2,503,365 | 2,217,135 | 2,359,279 | 6% | 14% |
| April | \$ 2,601,534 | 2,669,008 | 2,504,910 | 2,630,683 | 2,521,384 | 2,411,887 | 2,298,114 | 7% | -5% |
| March | \$ 2,941,509 | 3,145,875 | 2,760,391 | 2,918,262 | 2,538,509 | 2,435,165 | 2,483,775 | 14% | -5% |
| February | \$ 2,526,479 | 2,639,061 | 2,294,519 | 2,645,856 | 2,296,698 | 2,195,111 | 2,236,582 | 15% | -13% |
| January | \$ 2,494,802 | 2,537,569 | 2,522,040 | 2,424,798 | 2,269,886 | 2,145,820 | 2,219,473 | 1% | 4% |
| December | \$ 3,051,116 | 3,130,278 | 3,029,031 | 2,994,040 | 2,684,904 | 2,596,225 | 2,650,661 | 3% | 1% |
| November | \$ 2,667,371 | 2,837,586 | 2,634,855 | 2,529,672 | 2,330,184 | 2,232,074 | 2,327,937 | 8% | 4% |
| October | \$ 2,504,636 | 2,611,568 | 2,429,759 | 2,472,580 | 2,609,670 | 2,316,015 | 2,391,359 | 7% | -2% |
| September | \$ 2,643,175 | 2,684,249 | 2,689,523 | 2,555,753 | 2,262,789 | 2,323,763 | 2,395,352 | 0% | 5% |
| August | \$ 2,632,784 | 2,716,150 | 2,609,270 | 2,572,933 | 2,393,459 | 2,451,625 | 2,341,959 | 4% | 1% |
| July | \$ 2,596,052 | 2,657,622 | 2,582,107 | 2,548,426 | 2,299,674 | 2,384,763 | 2,358,054 | 3% | 1% |
| Total | \$ 31,967,556 | \$ 33,749,038 | \$ 31,945,659 | \$ 30,207,972 | \$ 29,391,389 | \$ 27,929,092 | \$ 28,414,209 | 6% | 6% |





Debt Service Schedule Example

BOND SOLUTION

Roosevelt County Special Hospital District 2019 Hospital Improvement Loan

| Period Ending | Proposed Principal | Proposed Debt Service | Existing Debt Service | Total Adj Debt Service | Revenue Constraints | Unused Revenues | Debt Serv Coverage |
|---------------|--------------------|-----------------------|-----------------------|------------------------|---------------------|-----------------|--------------------|
| 05/01/2020 | | 113,251 | 199,374 | 312,625 | 1,379,068 | 1,066,443 | 441.12483% |
| 05/01/2021 | 132,303 | 322,819 | 115,725 | 438,544 | 1,379,068 | 940,524 | 314.46528% |
| 05/01/2022 | 186,534 | 373,478 | 65,066 | 438,544 | 1,379,068 | 940,524 | 314.46537% |
| 05/01/2023 | 191,626 | 373,477 | 65,066 | 438,543 | 1,379,068 | 940,525 | 314.46564% |
| 05/01/2024 | 196,915 | 373,477 | 65,066 | 438,543 | 1,379,068 | 940,525 | 314.46556% |
| 05/01/2025 | 202,390 | 373,478 | 65,066 | 438,544 | 1,379,068 | 940,524 | 314.46501% |
| 05/01/2026 | 208,057 | 373,478 | 65,066 | 438,544 | 1,379,068 | 940,524 | 314.46495% |
| 05/01/2027 | 213,965 | 373,477 | 65,066 | 438,543 | 1,379,068 | 940,525 | 314.46554% |
| 05/01/2028 | 220,149 | 373,478 | 65,066 | 438,544 | 1,379,068 | 940,524 | 314.46524% |
| 05/01/2029 | 270,086 | 416,854 | 21,689 | 438,543 | 1,379,068 | 940,525 | 314.46556% |
| 05/01/2030 | 300,094 | 438,544 | | 438,544 | 1,379,068 | 940,524 | 314.46531% |
| 05/01/2031 | 309,877 | 438,544 | | 438,544 | 1,379,068 | 940,524 | 314.46535% |
| 05/01/2032 | 320,568 | 438,544 | | 438,544 | 1,379,068 | 940,524 | 314.46518% |
| 05/01/2033 | 332,204 | 438,543 | | 438,543 | 1,379,068 | 940,525 | 314.46563% |
| 05/01/2034 | 344,762 | 438,544 | | 438,544 | 1,379,068 | 940,524 | 314.46512% |
| 05/01/2035 | 358,173 | 438,544 | | 438,544 | 1,379,068 | 940,524 | 314.46530% |
| 05/01/2036 | 372,464 | 438,544 | | 438,544 | 1,379,068 | 940,524 | 314.46537% |
| 05/01/2037 | 387,623 | 438,543 | | 438,543 | 1,379,068 | 940,525 | 314.46558% |
| 05/01/2038 | 403,671 | 438,544 | | 438,544 | 1,379,068 | 940,524 | 314.46528% |
| 05/01/2039 | 420,625 | 438,544 | | 438,544 | 1,379,068 | 940,524 | 314.46541% |
| | 5,372,086 | 7,852,706 | 792,250 | 8,644,956 | 27,581,360 | 18,936,404 | |



Overview of Underwriting, Coverages and Attributes

➤ PPRF Audit Policy

- ❖ *Unmodified/Unqualified*; Any Material Weakness and/or repeated Significant Deficiency findings get analyzed and categorized into the areas of relevancy to NMFA and the proposed loan:
 - Executive Management and/or Financial Controls
 - Pledged Loan Revenue
 - General Accounting
 - Asset Management
- ❖ Non-compliance, Other Matter, or new Significant Deficiencies may still be deemed relevant by NMFA Staff. The client is required to submit a Corrective Action Plan on how it proceeding on resolving the finding.
- ❖ Based on findings present, relevancy categories, size significance, expected cure period (i.e. beyond one year) and risk, NMFA may require:
 - An intercept or ACH
 - Debt Service Reserve Fund
 - Monthly repayment
 - Special and/or annual certifications
 - Special covenants
 - Negative recommendation by NMFA staff to the Board
 - Special consideration may be given for health and safety projects



Overview of Underwriting, Coverages and Attributes

➤ PPRF Audit Policy

- ❖ *Modified/Qualified*; Applicants whose last audit received an opinion of modified, NMFA staff uses the Unmodified/Unqualified analysis policy, plus analyzes the applicant on the following conditions:
 - 1) The Applicant's ability to cure all Material Weaknesses or repeated Significant Deficiencies present as demonstrated by repeated and/or resolved findings over the last three audited years.
 - 2) Current Management's responses and plan to resolve all Material Weaknesses or repeated Significant Deficiencies present.
 - 3) Relevancy of all Material Weaknesses or repeated Significant Deficiencies on the Applicant's ability to repay the loan.
 - 4) Relevancy of Material Weaknesses or repeated Significant Deficiencies on Applicant's ability to manage, complete and maintain the Public Project.
 - 5) Ability to intercept the loan's pledged revenue stream(s); and
 - 6) A letter from the Department of Finance and Administration, Public Education Department, or applicable overseeing regulatory authority on Applicant's compliance with applicable laws and regulations, asset management, and/or interaction/experience with current management.
- ❖ *Adverse or Disclaimed*; Applicants with an Adverse or Disclaimed audit opinion must complete items 1-6 of the Modified/Qualified policy and will receive a negative recommendation from NMFA Staff. Special consideration will be given for health and safety projects.
- ❖ *Late Audit Applicants* may be considered if letter provided on why audit is late and timeline to current is acceptable, plus two of the three conditions are met: 1) Externally verified pledged revenue source; 2) Project relates to health, safety and welfare; or 3) Letter from DFA or PED that all budgets and reporting is current.



PPRF Supporting Other Special Purpose Programs

➤ UNM HSC Cig Tax Bonding

- 7.52% Dedicated Cig Tax Revenue Distribution
- Bonds issued funded UNM Cancer Center

➤ State Building Bond Act

- Fixed State Gross Receipts Tax Distribution
- Bonds issued funded UNM Cancer Center

➤ Department of Health Cig Tax Bonding

- 3.07% Dedicated Cig Tax Revenue Distribution
- Various Statewide DOH Facilities

➤ Energy Efficiency and Renewable Energy Bond Act

- Dedicated State Gross Receipts Tax
- Bonds issued have addressed energy efficiency and renewable energy measures in various public school district and State facilities.

➤ Rural County Cancer Treatment Bonding

- 0.53% Dedicated Cig Tax Revenue Distribution
- Bonds issued have funded Gila Regional Medical Center and Nor-Lea Hospital Cancer Centers

➤ Appropriation Bonds

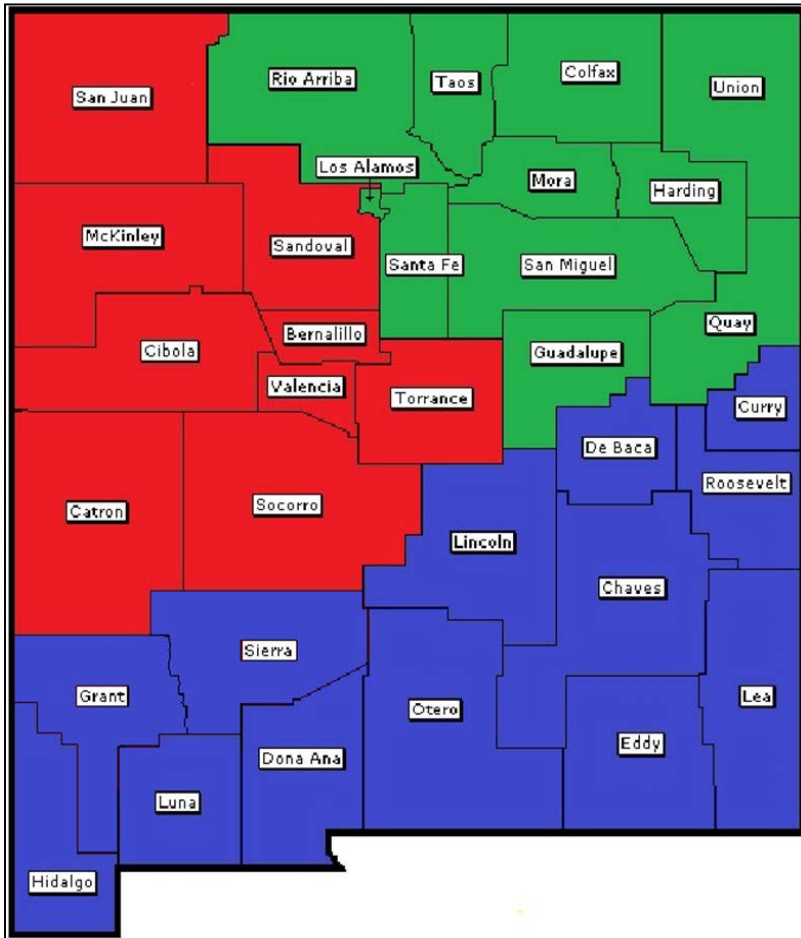
- DOH Ft. Bayard Medical Facility
- Administrative Office of the Court Facilities

➤ Bernalillo County Metro Court Bonds

- Pledged Court Facility Fee Revenue
- Bonds issued funded Bernalillo Metro Court Facility



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