



NEW MEXICO
FINANCE AUTHORITY

Presentation to the New Mexico Finance Authority Legislative Oversight Committee

Public Project Revolving Fund

Governmental Gross Receipts Tax Use

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New Mexico Finance Authority:

Michael Zavelle

Chief Financial Strategist
(505) 992-9639
mzavelle@nmfa.net



Governmental Gross Receipts Tax (GGRT)

- ❖ By Statute, the Public Project Revolving Fund (PPRF) receives 75% of GGRT
- ❖ Tax & Rev distributes GGRT monthly (with a two month lag) to the PPRF Trustee Bank held for the benefit of the PPRF.
 - ❖ Current fiscal year PPRF GGRT is legally unavailable for any purpose except PPRF bond principal and interest payments until all fiscal year principal and interest payments are made – that is, until after June 15th of each year.
 - ❖ The 75% of GGRT pledged by statute to the PPRF is embedded in the bond indentures. The funds are legally restricted until released by the Trustee.
 - ❖ Decreasing the 75% would put PPRF bonds in default
 - ❖ Decreasing the 75% would result in a rating downgrade of PPRF bonds
 - ❖ Effectively, decreasing the 75% is not a viable option – but PPRF GGRT funds can be legislatively designated for other purposes after June 15th



Governmental Gross Receipts Tax (GGRT)

- ❖ On June 16th of each year GGRT is released by the Trustee and funds flow to the PPRF and to specific purposes designated by the legislature
- ❖ Past legislative deductions from post-June 15th PPRF GGRT funds include:
 - ❖ Legislative sweeps to the State General Fund
 - ❖ Designations by the legislature for Federal matches and State programs
 - ❖ Local Government Planning Fund (LGPF) – Most Years
 - ❖ Drinking Water Revolving Loan Fund (DWRLF) – Most Years
 - ❖ NMED Clean Water State Revolving Fund (CWSRF) – Most Years
 - ❖ Other One-Off – for example, for Administrative Office of the Courts
- ❖ The State General Fund can access swept GGRT funds in the same fiscal year as the funds are available to flow to the PPRF but only on or after June 16th



Net Governmental Gross Receipts Tax (GGRT)

- ❖ Programs receiving legislatively designated PPRF GGRT funds only have access to the funds in the following fiscal year. This is also true for the PPRF.
- ❖ The PPRF accesses net GGRT for several purposes in the next fiscal year:
 - ❖ PPRF program liquidity - funding PPRF loans in advance of reimbursement by PPRF bond issues
 - ❖ To fund PPRF loans not reimbursed by PPRF bond issues
 - ❖ Parts of loans that cannot cost effectively be reimbursed by PPRF bonds
 - ❖ Equity loans not amenable to bond reimbursement
 - ❖ Disadvantaged loans
 - ❖ The PPRF rule guideline is that up to 20% of net GGRT should be available to fund disadvantaged loans but funds can be carried over.



Disadvantaged Loans

- ❖ The PPRF provides communities that qualify based on MHI with loans at below market rates as follows:
 - ❖ Equipment loans (predominately police and fire) up to \$150,000 in any year at 0% or 2% interest rates
 - ❖ Infrastructure loans up to \$500,000 in any year at 0% or 2% interest rates
 - ❖ Infrastructure loans are structured to benefit borrowers – that is, generally at the back end of loans
- ❖ A 20-year PPRF loan of \$1.8 million with half amortized in the first six years (typical of a school district loan) benefits from disadvantaged funding:

	Total Debt	Net
20-Year \$1.8 Million Loan	Service Cost	Interest Cost
Loan at AA rates (State Guarantee)	\$ 2.119M	2.48%
Loan at NMFA Rates	\$ 2.093M	2.28%
Loan at NMFA Rates w/ \$225K at 0%	\$ 1.974M	1.36%
Loan at NMFA Rates w/ \$500K at 0%	\$ 1.889M	0.70%



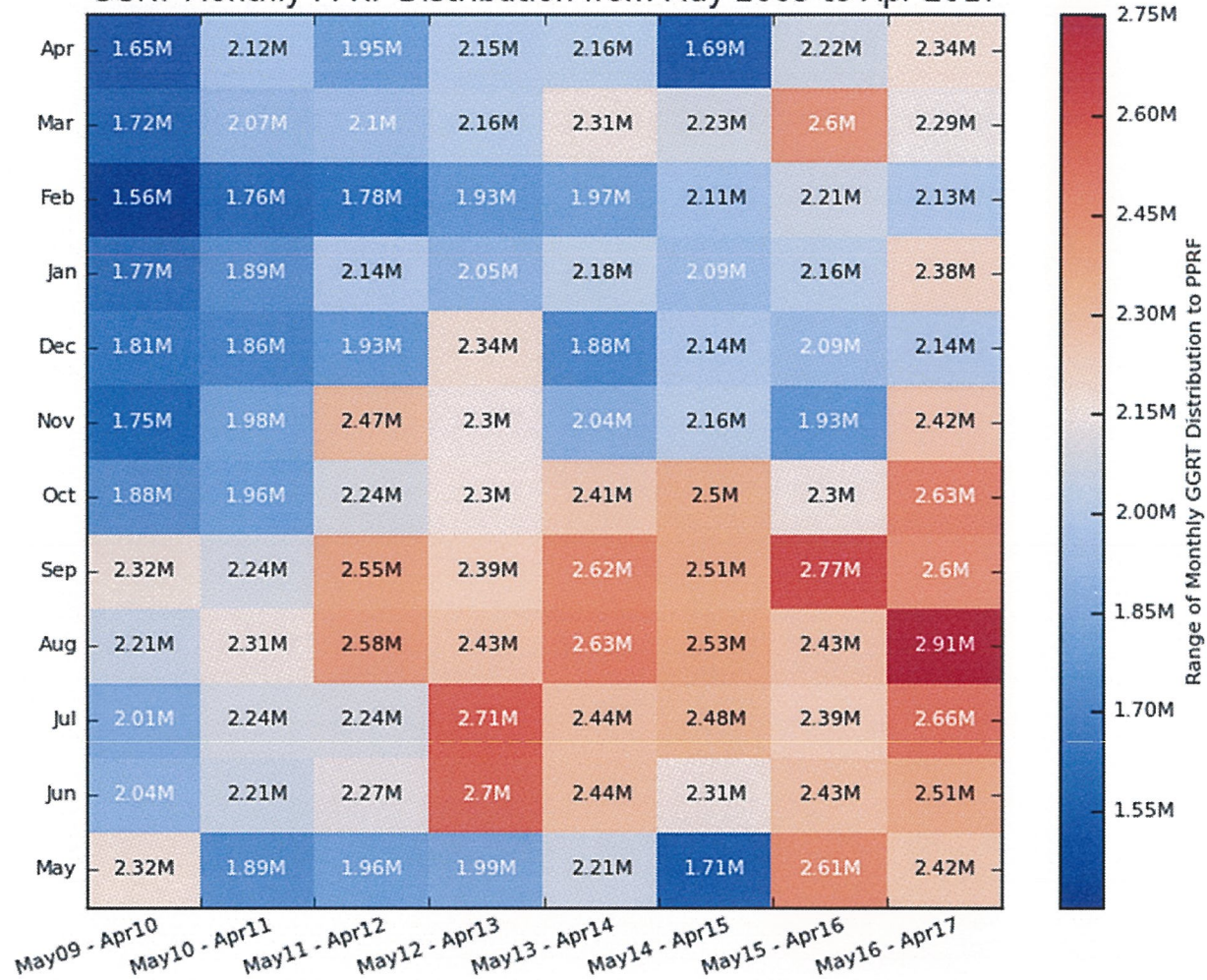
Growth of the Governmental Gross Receipts Tax - Fiscal Year to Fiscal Year

	NMFA Share of GGRT	% Change
1996	12,044,591	-
1997	12,283,833	1.99%
1998	12,734,232	3.67%
1999	13,572,772	6.58%
2000	14,529,670	7.05%
2001	15,745,916	8.37%
2002	15,462,325	-1.80%
2003	16,743,101	8.28%
2004	18,368,369	9.71%
2005	18,445,414	0.42%
2006	19,689,576	6.75%
2007	21,335,908	8.36%
2008	21,431,489	0.45%
2009	21,493,438	0.29%
2010	23,053,051	7.26%
2011	24,518,214	6.36%
2012	26,204,289	6.88%
2013	27,451,328	4.76%
2014	27,297,697	-0.56%
2015	26,465,641	-3.05%
2016	28,146,217	6.35%
2017	29,413,964	4.50%



Pattern of GGRT Distributions to the PPRF for the Most Recent Seven Years

GGRT Monthly PPRF Distribution from May 2009 to Apr 2017





GGRT Funds Available for PPRF Purposes

- ❖ GGRT funds that flow thru to the PPRF loan programs have been decreasing:

Fiscal Year	PPRF GGRT	State General Fund	GGRT for Programs	Net Flow Thru GGRT
2013	\$ 27.5M	\$ -0-	\$ 6.4M	\$ 21.1M
2014	\$ 27.3M	\$ -0-	\$ 3.3M	\$ 24.0M
2015	\$ 26.5M	\$ 10.5M	\$ 8.6M	\$ 7.4M
2016	\$ 28.1M	\$ 10.0M	\$ 6.2M	\$ 11.9M
2017	\$ 29.4M	\$ 15.5M	\$ 3.2M	\$ 10.7M

- ❖ Use of GGRT flow thru for disadvantaged lending has been increasing:

Fiscal Year	Available Flow Thru GGRT	Disadvantaged Lending	20% of Net GGRT	Under Target / Over Target	Available All Other Purposes
2014	\$ 21.1M	\$ 4.4M	\$ 4.2M	\$ 0.2M	\$ 16.7M
2015	\$ 24.0M	\$ 2.8M	\$ 4.8M	\$ 2.0M	\$ 21.2M
2016	\$ 7.4M	\$ 6.3M	\$ 1.5M	\$ 4.8M	\$ 5.9M
2017	\$ 11.9M	\$ 12.1M	\$ 2.4M	\$ 9.7M	\$ 0.2M
2018	\$ 10.7M	\$ 12.7M*	\$ 2.1M	\$ 9.9M	\$ 2.0M
* Year to Date					

- ❖ Availability of GGRT flow thru for all other PPRF purposes is now insufficient



Impact of Decreased Net GGRT on PPRF Program Liquidity

- ❖ GGRT dedicated to disadvantaged loans has reached an unsustainable level and PPRF program liquidity is now inadequate:
 - ❖ PPRF program liquidity is necessary to advance fund PPRF loans that will be reimbursed by PPRF bonds
 - ❖ If PPRF program liquidity is insufficient, a \$100 million liquidity line-of-credit with Wells Fargo is used to advance fund PPRF loans
 - ❖ Necessary use of the Wells Fargo line-of-credit signals inadequate liquidity. The line-of-credit will be utilized in FY2018 for the first time in several years
 - ❖ Given sweeps to the State General Fund, downgraded State credit, and higher borrowing costs for school districts and others, greatly increased demand for disadvantaged funding has resulted.
 - ❖ NMFA will be reconsidering the terms under which disadvantaged funds can be lent. Changes will translate into higher borrowing costs for disadvantaged New Mexico communities.



GGRT and the Impact on PPRF Bond Ratings

- ❖ Standard & Poor's just upgraded the PPRF subordinate lien rating to AAA/Stable – the same level as the PPRF senior lien
- ❖ The S&P rating report includes the following language:
 - ❖ “The GGRT contributions to the NMFA remain a critical aspect of the rating. Any actions that result in a decrease in the annual flow of GGRT revenues to the NMFA would likely result in a negative rating action.”
- ❖ Moody's rates the senior and subordinate lien bonds as Aa1/Stable and Aa2/Stable
- ❖ The Moody's rating report includes the following language:
 - ❖ Credit Challenges: “Third consecutive year of required contributions to the state from a portion of flow-through funds.”
 - ❖ GGRT “contributions [to the State] that subsequently affect the authority's operations or policy driven liquidity levels could result in downward pressure on the ratings.”