



NEW MEXICO
FINANCE AUTHORITY

Mission and Purpose of the NMFA



PRESENTATION TO THE
NMFA OVERSIGHT COMMITTEE

ROBERT P. COALTER, CEO

June 23, 2017

NMFA Purpose

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In 1992, the New Mexico State Legislature created the New Mexico Finance Authority to coordinate the planning and financing of state and local public projects, to provide for long-term planning and assessment of state and local capital needs and to improve cooperation among the executive and legislative branches of state government and local governments in financing public projects.

Over the years, the purpose was expanded to include financing of economic development and other community development projects.

NMFA Board of Directors

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John E. McDermott - Chair
McDermott Advisory Services

William Fulginiti – Vice Chair
Executive Director
New Mexico Municipal League

Matt Geisel
Cabinet Secretary
New Mexico Economic Development Department

Katherine Ulibarri – Treasurer
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Central NM Community College

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Duffy Rodriguez
Cabinet Secretary
Department of Finance & Administration

Blake Curtis
CEO
Curtis & Curtis, Inc.

Butch Tongate
Cabinet Secretary
New Mexico Environment Department

Mission Based Financing

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NMFA meets its mission of helping New Mexico's communities by providing access to capital through mission-based funding in three primary areas:

Infrastructure and Capital Equipment Projects

- ❖ Public Project Revolving Fund
- ❖ Local Government Planning Fund
- ❖ Colonias Infrastructure Project Fund

Water

- ❖ Drinking Water State Revolving Loan Fund
- ❖ Water Project Fund
- ❖ Acequia Project Fund

Community Facilities and Economic Development

- ❖ Primary Care Capital Fund
- ❖ Behavioral Health Capital Fund
- ❖ New Markets Tax Credit Program
- ❖ Smart Money Loan Participation Program
- ❖ Collateral Support Participation Program (SSBCI)



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Public Project Revolving Fund



PRESENTED BY:

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MICHAEL ZAVELLE, CFS

ZACH DILLENBACK, CLO

Public Project Revolving Fund

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- ◆ 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)
- ◆ Low-cost financial assistance for capital equipment, building and infrastructure projects
 - ❖ Market interest rates based on PPRF's 'AAA'/Aa1 bond ratings
 - ❖ Up to \$500,000 of below market interest rate loans for entities with a Median Household Income ("MHI") less than the State average:
 - ❖ 0% for Entities with an MHI less than or equal to 80% of the State MHI
 - ❖ 2% for Entities with an MHI greater 80% but less than 100% of the State MHI
- ◆ The NMFA annually presents to the Legislature an entity authorization list for eligible infrastructure projects which allows NMFA to meet the project timing needs of New Mexico communities

Public Project Revolving Fund

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◆ **Qualified entities include:**

- ❖ Local Governments
- ❖ State Agencies
- ❖ Public School
- ❖ Volunteer Fire Districts
- ❖ Tribal Governments
- ❖ Higher Education Institutions
- ❖ Special Districts

◆ **NMFA staff work with local officials in the following areas:**

- ❖ Credit and debt capacity analyses
- ❖ Loan structuring assistance
- ❖ Evaluation of refinancing opportunities

Public Project Revolving Fund

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◆ **PPRF's high bond ratings are more important now than ever before**

- ❖ Municipal bond market changed profoundly over past several years
- ❖ Unprecedented level of scrutiny and oversight by federal regulators
- ❖ Enforcement actions by the SEC and IRS are likely to increase
- ❖ Under resourced issuers have the least ability to maintain the required records
- ❖ Recent demand for the PPRF by higher rated issuers, especially school districts, results from rating downgrades of the State, school districts and other borrowers
- ❖ Borrower's ability to improve ratings with bond insurance is limited

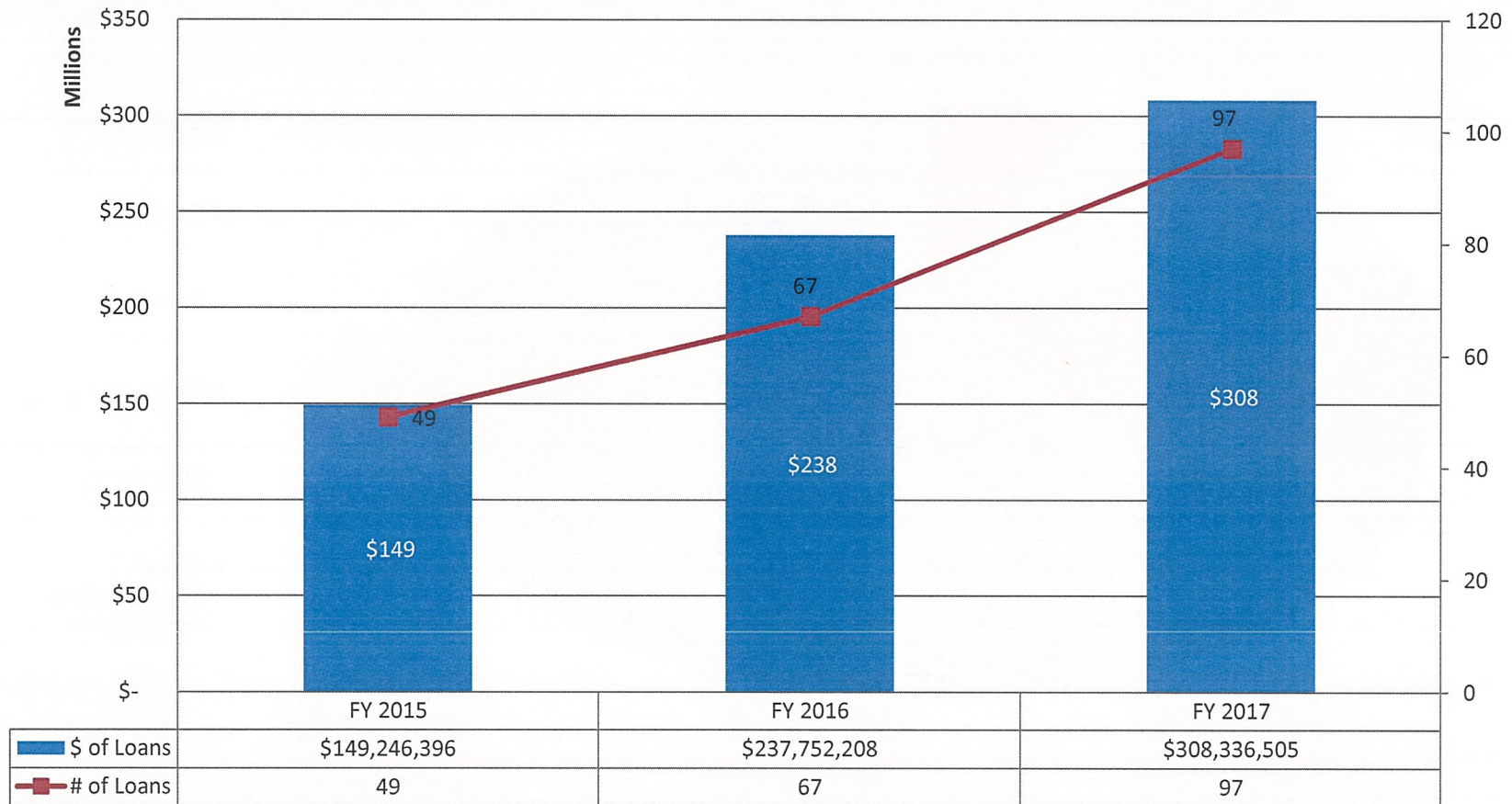
◆ **PPRF Reserve Funds are a key component of the PPRF**

- ❖ S&P's AAA PPRF rating results from credit enhancement by indentured reserves
- ❖ PPRF credit enhancements ensure the availability of funds for the most economically disadvantaged New Mexico communities

Public Project Revolving Fund

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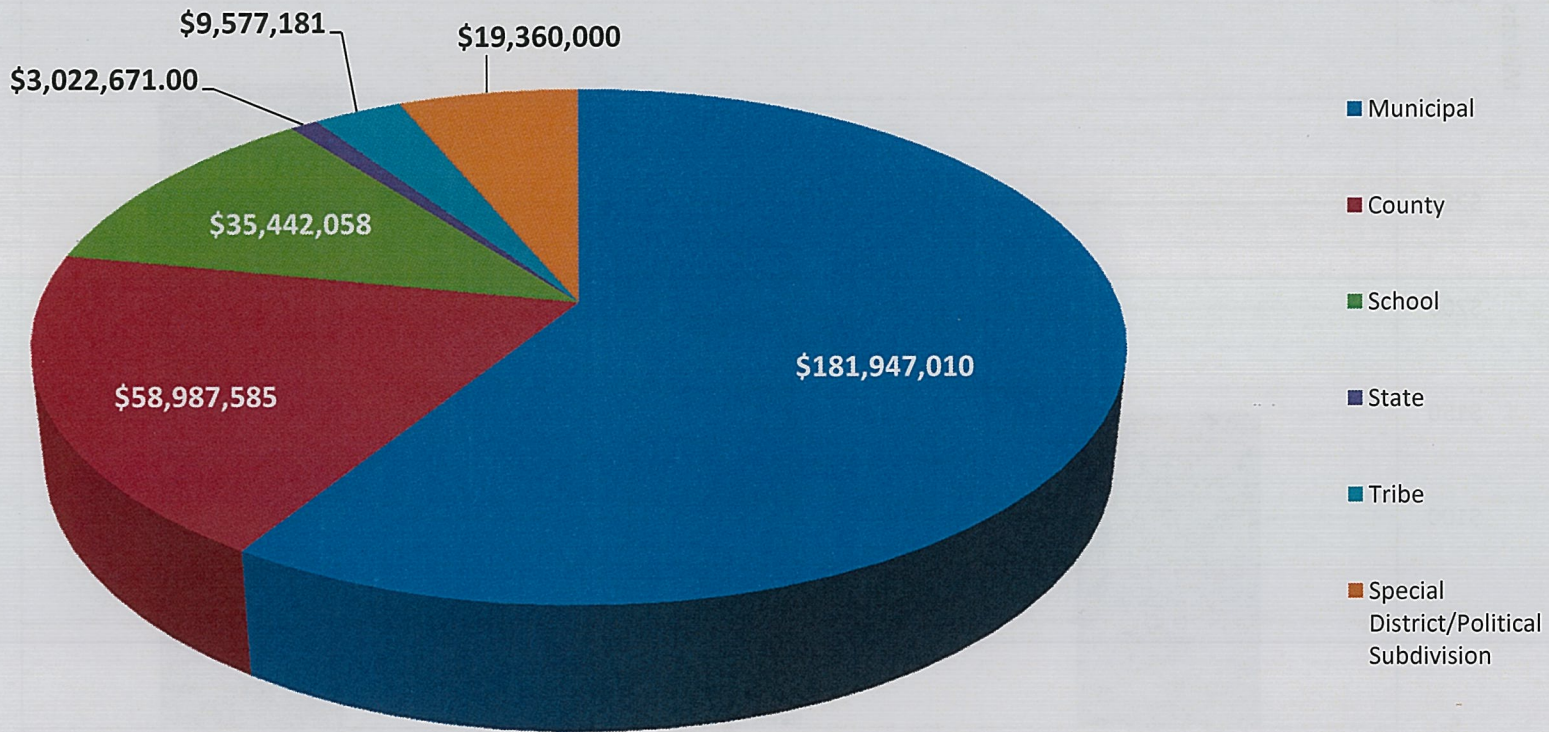
◆ Recent PPRF Lending Activity:



Public Project Revolving Fund

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◆ FY 2017 PPRF Loans by Category (Total \$308,336,505)



Public Project Revolving Fund

◆ **FY 2018 Expected PPRF Loan Increases: Public School Districts**

- ❖ In FY 2017, the PPRF closed on 25 Public School District loans total over \$35.4 million.
- ❖ In just the last three months, the NMFA Board approved 22 Public School District Loans totaling \$42.97 million.
- ❖ Recent approved Public School District loans are scheduled to close in the first quarter of FY 2018, already a 21% increase in Public School Districts loans over all Public School District loans funded in FY 2017.
- ❖ Increased activity is primarily related to increased costs to accessing the market as a result of the State's credit rating and negative outlook.
- ❖ Public School District's utilization of the PPRF's Disadvantaged Funding has also been increasing and effective at lowering overall borrowing costs.
- ❖ 3 additional Public School District applications totaling \$8 million are pending NMFA Board approval in July.

Public Project Revolving Fund

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◆ **Between October 2016 and September 2017 PPRF bonds issued will total \$285,035,000:**

- ✦ \$ 40,870,000 – 2016E series
- ✦ \$ 38,575,000 – 2016F series
- ✦ \$ 60,265,000 – 2017A series
- ✦ \$ 68,015,000 – 2017B series
- ✦ \$ 37,675,000 – 2017C series
- ✦ \$ 39,635,000 – 2017D series (scheduled for August 2017 sale)

Public Project Revolving Fund

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- ◆ **PPRF bonds are issued only to:**
 - ◆ Reimburse PPRF loans already made of less than \$10,000,000 each
 - ◆ Fund PPRF loans of \$10,000,000 or more priced simultaneously with PPRF bonds
 - ◆ Current refinance PPRF bonds for cost savings
- ◆ **All PPRF loan revenues, GGRT distributions, PPRF reserves and other PPRF resources are available to repay all PPRF bonds – there are no standalone PPRF bonds.**
- ◆ **GGRT distributions are held by the Trustee until June 16th of each year – effectively, GGRT distributions to the PPRF in one fiscal year are only available for use by the PPRF in the next fiscal year.**
- ◆ **PPRF Loans financed by a PPRF bond are “pledged” to that bond to the extent that projects are only reimbursed once by a bond or loan. Loan and other PPRF revenues repay all bonds and not specific bonds.**

Public Project Revolving Fund

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◆ **The PPRF bond and PPRF loan programs are interlaced but differ:**

- ◆ PPRF loans closing 7/1/16 – 8/31/17 provide \$19.4M in disadvantaged funding. Funded from GGRT flow thru but not reimbursed by PPRF bonds, disadvantaged loan repayments are nonetheless pledged to bond repayment.
- ◆ PPRF loans in total have approximately \$60 million in individual debt service reserve funds pledged to them. These loan DSR funds, which are restricted, are not explicitly pledged to PPRF bonds but serve as a bond credit enhancement as they ensure PPRF loan repayments will be made.
- ◆ PPRF loans provide infrastructure funds spent over about three years. These funds are held by the Trustee and invested by NMFA but are restricted and belong to borrowers. PPRF bonds are subject to IRS audit to confirm that the pledged PPRF loan funds have been spent for eligible tax-exempt purposes.
- ◆ PPRF loans financed by bonds are risk rated by Moody's and revenues are discounted to 100%, 80% or 50% for bond indenture compliance purposes. Without GGRT, risk adjusted coverage falls below 1.0 and the PPRF could not issue bonds.

Public Project Revolving Fund

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- ◆ **PPRF bonds are sold on both a negotiated sale and a competitive sale basis. Investor interest is monitored in-depth.**
- ◆ **PPRF bond underwriters are selected by an RFP process**
- ◆ **External professionals involved in PPRF bond issues include:**
 - ◆ Financial Advisor – PFM
 - ◆ Bond and Tax Counsel – Gilmore & Bell
 - ◆ Disclosure Counsel – Andrews Kurth
 - ◆ Loan Counsel – Sutin, Thayer & Brown
 - ◆ Underwriter Counsel – Recommended by underwriter for negotiated sales
 - ◆ Financial advisors and bond counsel of simultaneous borrowers
 - ◆ Trustee – Bank of Albuquerque



NEW MEXICO
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Water Programs



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Local Government Planning Fund

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- ◆ Created in 2002 as New Mexico Finance Authority Act 6-21-6.4 (SB 40, Sponsored by Sen. Campos)
- ◆ Provides upfront capital to allow for proper planning of vital water and wastewater projects
- ◆ Initially, statute required that entity repay “grant” if funding for project was received; this provision was eliminated in 2012
- ◆ Program broadened twice in statute
 - ❖ *2005: Master plans, Conservation plans & Economic Development plans*
 - ❖ *2012: All Infrastructure plans*
- ◆ Changes to rules in 2014 increased access to the Fund

Colonias Infrastructure Project Fund

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- ◆ Created in 2010 by the Colonias Infrastructure Finance Act 6-30-1.0 (SB 279, Sponsored by Sen. Papen)
- ◆ Provides capital to infrastructure projects in designated Colonia communities
- ◆ 6.5% of the Senior Severance Tax Bonds were appropriated to Colonias projects in FY 2016. Senate Bill 8 from 2016 Special Session reduced the percentage of STBs directed to Colonias to 4.5% beginning with the FY 2017 cycle
- ◆ Overseen by the Colonias Infrastructure Board which is administered by the NMFA
- ◆ With six funding cycles to date, the Colonias Board has approved 168 awards totaling approximately \$75.5 million

Colonias Infrastructure Project Fund

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- ◆ Since January 2015, the Colonias Infrastructure Project Fund has been administered by the same team as the Water Project Fund
- ◆ The team implemented similar processes as the Water Trust Board project and board administration resulting in quicker closings and faster project completions:

Award Year	# of Projects	Date of Decision by CIB	FROM NMFA BOARD APPROVAL			
			Average Days to Close	Year Over Year Change	Average Days to Project Completion*	Year Over Year Change
2012	38	06/08/12	286		1163	
2013	38	06/13/13	298	12	1142	-21
2014	37	06/04/14	279	-19	1102	-40
2015	28	06/04/15	237	-42	748	-355
2016	14	04/26/16	212	-25		

*using actual project completion date or maximum amount of time allowed in loan/grant agreement

Drinking Water State Revolving Loan Fund

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- ◆ Established in 1998 through the Drinking Water State Revolving Loan Fund Act 6-21A-4 (HB 592, Sponsored by Rep. Gary King)
- ◆ Low-cost financial assistance for construction and improvements to drinking water facilities
- State Revolving Loan Fund capitalized by
 - ❖ *\$133.6 million in federal awards*
 - ❖ *\$34.9 million in state match*
 - ❖ *\$52.6 million in interest and loan repayments*
- ◆ NMFA and the New Mexico Environment Department (NMED) administration of the program in partnership. NMED quarterly publishes a Fundable Priority List, and NMFA accepts applications from the list in the order in which they are given
- ◆ To date, NMFA has made 116 loans totaling more than \$182.1 million

Water Project Fund

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- ◆ Established in 2002 through the Water Project Finance Act 2-4A-9 (HB 534, Sponsored by Rep. Joe Stell)
- ◆ Funded from an annual distribution from the Water Trust Fund and 9% of Senior Severance Tax Bonds (STB), less 10% which is appropriated to Office of State Engineer for costs related to water rights adjudication
- ◆ Provides grants and low-cost loans for five types of water projects:
 - ❖ *Water storage, conveyance and delivery projects;*
 - ❖ *Water conservation or treatment, recycling, or reuse projects;*
 - ❖ *Watershed restoration and management projects;*
 - ❖ *Flood prevention projects;*
 - ❖ *Endangered Species Act (ESA) collaborative projects*
- ◆ NMFA makes grants and loans recommended by the 16-member Water Trust Board and authorized by Legislature

Water Project Fund

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- ◆ Over the past two years, NMFA staff have helped the Water Trust Board
 - ❖ *Simplify its processes and requirements*
 - ❖ *Increase transparency of funding decisions*
 - ❖ *Increase access to the fund*
 - ❖ *Provide relevant measures of health and safety for each type of eligible project*
 - ❖ *Focus policies on impact to the community, regardless of the community's size*
 - ❖ *Restore credibility of funding process with stakeholders*
 - ❖ *Streamline closing process, which shortened the time period for closing awards*
- ◆ NMFA aligned to the greatest extent possible, the application, funding requirements and processes of the Water Trust Board and the Colonias Infrastructure Board to reduce burdens on applicants

Acequia Project Fund

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- ◆ Created in 2004 by amending the Water Project Finance Act 72-4A-9.1 (SB 87, Sponsored by Sen. Cisneros)
- ◆ Funded to date with \$200,000 in donations from the Healy Foundation
- ◆ NMFA makes grants recommended by 16-member Water Trust Board and authorized by Legislature
- ◆ Under current policy, Acequia Project Fund grants are used for planning projects only
- ◆ Approximately \$25,000 currently available for new projects



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Private Lending Programs



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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

Behavioral Health Capital Fund

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- ◆ Established in 1994 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

New Markets Tax Credits

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- ◆ Operated under the Statewide Economic Development Finance Act which was amended in 2006 to explicitly allow NMFA to participate in NMTCs by HB 277 (Rep. Lundstrom)
- ◆ NMFA partnered with NM Community Capital to form Finance New Mexico, LLC, which was certified by the US Dept. of Treasury as a Community Development Entity in 2006
- ◆ Finance New Mexico has received four allocations of federal NMTCs totaling \$246 million; approximately \$47.5 million of available tax credit authority of which \$22.5 million is dedicated to projects located in qualified census tracts in non-urban counties
- ◆ The program uses an Advisory Board composed of community leaders from across the state to ensure investments benefit low income persons
- ◆ Financings may only occur in federally designated low income census tracts as determined by the federal government

Economic Development Revolving Fund

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- ◆ The EDRF is divided into State and Federal Appropriations:
 - ◆ \$5.1 million in net State Appropriations
 - ❖ \$10 million General Fund appropriation in 2005 (\$5 million reverted to the State 2010)
 - ❖ \$2 million appropriation in 2007 (\$1.9 million reverted to the State in 2011)
 - ◆ \$8,168,350 in Federal funds received through the State Small Business Credit Initiative
- ◆ Federal appropriation allows NMFA to participate with private borrowers in a subordinate collateral position. \$9.2 million of loans to 19 projects approved to date.

Why Bank Loan Participations?

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- ◆ Allow NMFA to participate in a business loan by buying a portion of a loan made by a local bank
- ◆ Allow NMFA to partner with, not compete against, local banks to finance New Mexico businesses
- ◆ Bank applies to the NMFA on behalf of a business by submitting the information used to reach its lending decision
- ◆ New Mexico businesses' financing gaps filled and costs lowered
- ◆ Bank originates and services the loan as it otherwise would

Smart Money Initiative

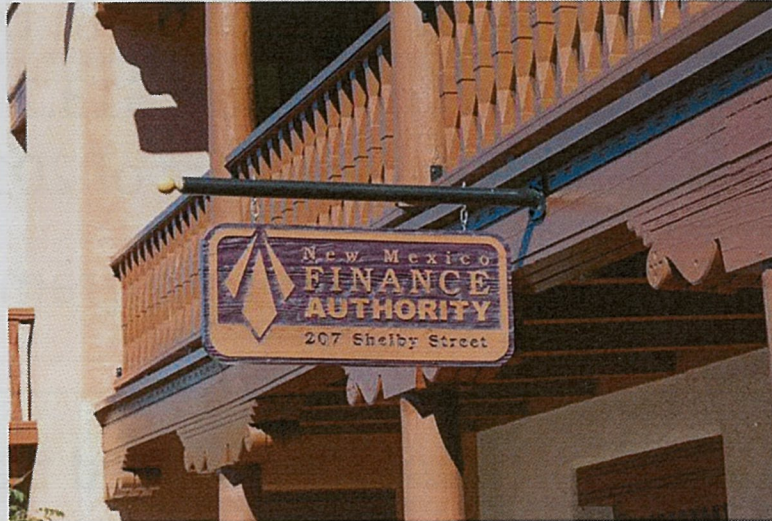
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- ◆ Established in 2003 via the Statewide Economic Development Finance Act 6-25-1 (SB 934, Sponsored by Sen. Aragon)
- ◆ Allows NMFA to purchase participations in loans from banks to private for-profit and not-for-profit entities. Borrowers must agree to hire a specific number of employees
- ◆ NMFA may purchase up to 49% interest in any one loan if borrower agrees to create at least 1 job per \$50,000 borrowed
- ◆ Five loans made to date totaling \$5.6 million, with an additional \$1.6 million approved for a loan that is expected to close shortly
- ◆ Loans demonstrate geographic and industry diversity with loans to date in Alamogordo, Raton, Las Vegas, Hobbs and Las Cruces

Collateral Support Participation Program

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- ◆ In June 2011, the NMFA signed an MOU with the NM Economic Development Department to administer \$13.2 million in funding from the Federal Small Business Jobs Act of 2010.
- ◆ Overseen by the US Dept. of Treasury, program serves to increase the flow of capital to small businesses
- ◆ In January 2016, Dept. of Treasury approved transfer of \$5 million to seed *The New Mexico Catalyst Fund*, a fund of funds venture program operated by Sun Mountain Capital
- ◆ The State completed its reporting requirements on March 31, 2017 and NMEDD has requested that NMFA return the funds as they are repaid for use in other Economic Development programs



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