

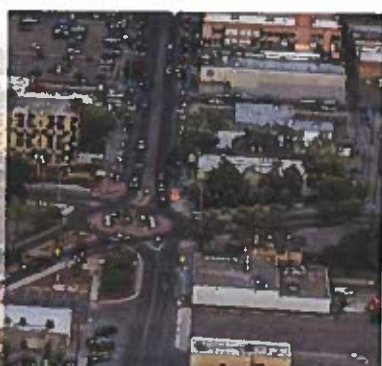
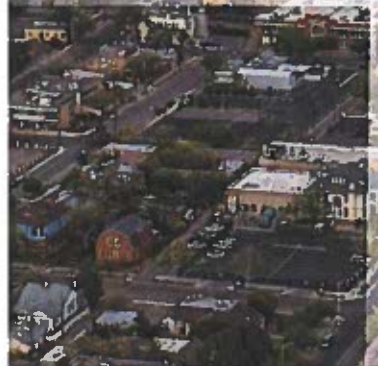
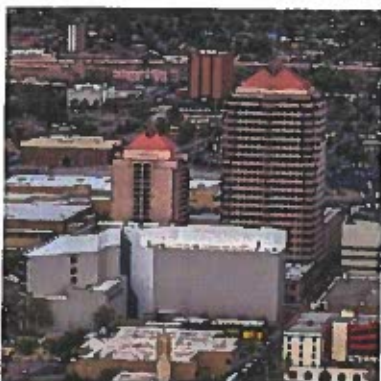
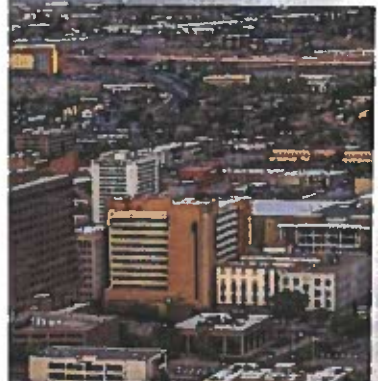


June 2021

New Mexico Access to Capital Report

Prepared for:
New Mexico Finance Authority

Prepared by:
**Council of Development
Finance Agencies**



cdfa.net

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OVERVIEW

The New Mexico Access to Capital Report was prepared by the Council of Development Finance Agencies (CDFA) for the New Mexico Finance Authority (NMFA). The report reviews current infrastructure, economic development, and COVID-19 relief and recovery financing programs and offers suggestions for new programs or opportunities to improve New Mexico's existing economic development finance climate. CDFA conducted numerous interviews with stakeholders in New Mexico to inform the recommendations in this report. These recommendations should be further evaluated by practitioners and decision-makers in New Mexico to assess how they fit with the state's funding environment. CDFA's goal with this report is to advance the ongoing conversation about how to best support capital access in New Mexico and improve economic vitality across the state.

The report is divided into three main sections:

SECTION A: NEW MEXICO IN CONTEXT

Section A provides context on the landscape of economic development finance in New Mexico and summarizes key organizations in the state, demographics, workforce trends, predominant industries, and the economic impacts of the COVID-19 pandemic on the state.

SECTION B: NEW MEXICO'S DEVELOPMENT FINANCE TOOLBOX

Section B outlines the financing tools available in New Mexico categorized by economic sector. State-level financing programs and applicable federal programs are included, along with identified financing gaps in each sector based on research and stakeholder interviews.

SECTION C: RECOMMENDATIONS

Section C offers recommendations for improving New Mexico's development finance toolbox as well as programmatic and policy solutions to strengthen capacity.

INTRODUCTION

WHAT IS DEVELOPMENT FINANCE?

Development finance is an effort of local communities to support, encourage, and catalyze economic growth. It is a tool to help make a project or deal successful, and in turn, to create a benefit for the long-term health of a community. This benefit is the economic growth that can take place through public and private investment in infrastructure, business, and industry.

Development finance is a proactive approach to assist in development projects. It leverages valuable public resources to support significant private sector investment. Development finance also involves capturing capacity and advantages throughout the community and beyond geographic boundaries. It is a dedication to building partnerships and establishing collaborative approaches to solving complex development challenges. In doing so, development finance helps to solve the needs of businesses, industry, developers, and investors, while also contributing to a community's long-term health and goals.

WHY IS DEVELOPMENT FINANCE IMPORTANT?

Development finance is critical to economic development because it has the potential to make or break a project. Businesses need access to financial resources to be successful. Whether the funds are used for site acquisition or start-up capital, many projects hinge on the borrower's ability to leverage appropriate and convenient sources of financing. Development finance may offer a type of financing that is less expensive than conventional, private financing.

Development finance can help businesses generate working capital and invest in their ideas. It can help developers achieve an acceptable return on investment (ROI) for a given project, and it can help communities to develop infrastructure, jobs, and amenities. In pursuing a development finance strategy, financing entities must balance the needs of industry with the needs of the community.

BUILDING THE DEVELOPMENT FINANCE TOOLBOX

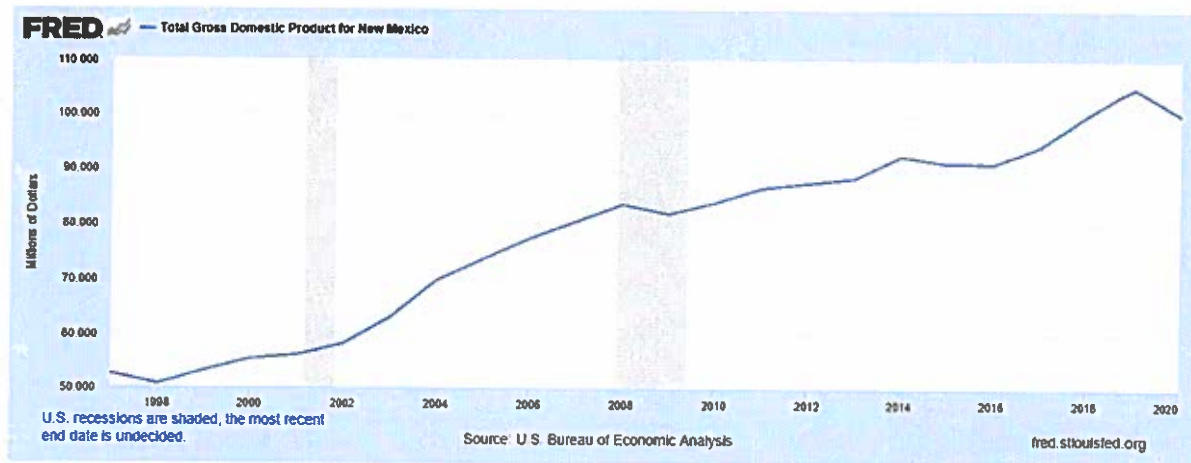
Hundreds of development finance programs exist at the federal, state, and local levels. These programs have been created over the past two centuries to address the financing needs of business, industry, real estate, housing, environmental, and community development entities.

The toolbox approach to development finance brings together the best of these financing concepts and techniques to provide a comprehensive response to capital and resource needs. The toolbox approach offers programs and resources that harness the full spectrum of financing options. This approach also requires a commitment to public-private partnerships, and the creation of niche programs to assist different types of industries and enterprises. Whether assisting large-scale industrial development projects or small, micro-enterprise business developments, the toolbox approach is designed to help numerous types of users maximize opportunities for growth in the local economy.

The New Mexico Access to Capital report analyzes the development finance tools in the state and makes recommendations for expanding or strengthening New Mexico's development finance toolbox. By building a comprehensive development finance toolbox, New Mexico will be prepared to proactively address the economic challenges facing communities and businesses.

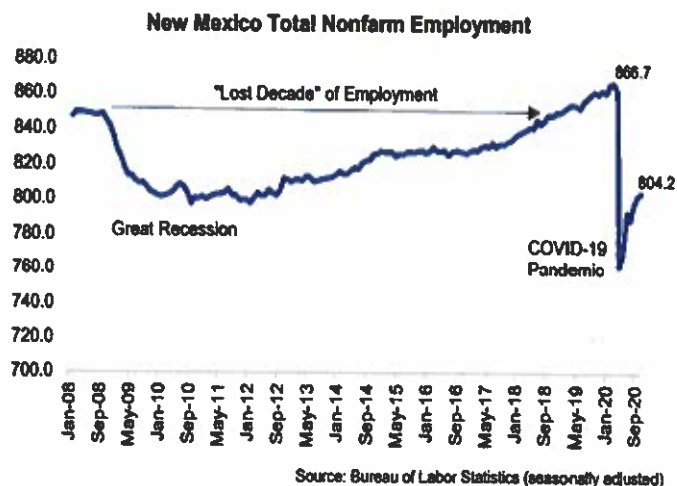
SECTION A: NEW MEXICO IN CONTEXT

For the last 25 years, the Gross Domestic Product (GDP) for New Mexico has steadily risen over time. Despite the increases, New Mexico is still ranked 38th in the nation by GDP. According to the St. Louis Federal Reserve¹, New Mexico’s GDP fell by just over 3% in 2020, which is on average for the nation. More alarming, though, is that the 2020 decline in GDP is falling faster than the rates New Mexico experienced after the Great Recession.



The Great Recession had a significant impact on New Mexico, and the state recovered at a slightly slower trajectory when compared to other states. Unemployment started rising in 2008 and peaked at 8.1% in 2010, and as other states were recovering, New Mexico’s unemployment was higher than most at 6.2% in 2017 and wages had stagnated.

The economic impacts brought on by the COVID-19 pandemic are making economic recovery from the Great Recession even more difficult in New Mexico. Residents and small businesses are suffering, and economists have estimated that the state’s workforce declined by 6.5% as of October 2020. Further, the labor-force participation rate (those working or actively seeking work) declined by approximately 36,600 New Mexicans.²



¹ U.S. Bureau of Economic Analysis, Total Gross Domestic Product for New Mexico [NMNGSP], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/NMNGSP>

² December 2020 Consensus Revenue Brief (nmlegis.gov)

One bright spot: the COVID-19 pandemic has not affected New Mexico's state government as adversely as other comparable state governments. The decline in the state's general fund recurring revenues was primarily due to the decrease in oil prices rather than the expected decline in income tax revenues and gross receipts tax collections. Federal stimulus funds offset some of the budgetary shortfall, making the projected FY21 budget shortfall only \$182 million. The state legislature estimates that without the receipt of federal stimulus funds, the state would have needed to use nearly \$1.1 billion from its reserves to cover the FY21 budget.³

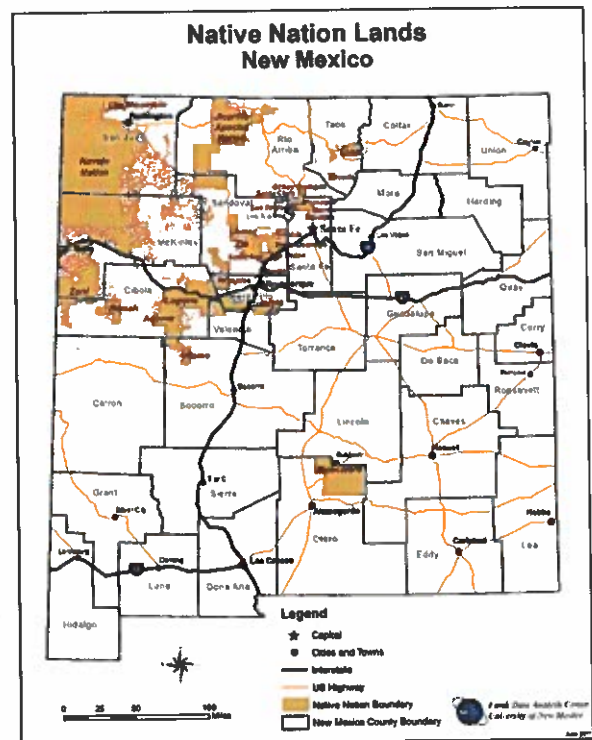
To address the needs of residents and businesses in the state, New Mexico created a recovery loan fund for small businesses and a grant program using money from the CARES Act. In addition, the New Mexico State Legislature appropriated funds to create new recovery and stimulus programs during the 2021 legislative session.⁴ Despite all of the state's efforts, the New Mexico Bureau of Business and Economic Research (BBER) estimates that employment will not reach pre-pandemic levels until at least 2025.

GEOGRAPHY AND DEMOGRAPHICS

New Mexico encompasses 121,590 miles², making it the 5th largest state by total area in the country. Though plains make up the largest portion of the state's landmass, the state is home to a diverse range of landscapes, from vast deserts to deep forests and steep mountains. The state has the 2nd most days of sunshine per year.⁵

The Census Bureau estimates that between 2010 and 2017, the state's population increased by about 1.1%. The median age group was 37.8 years old in 2017, and around 25% of the state's population is between the prime working ages of 25 - 44. Around 64% of households are families and just over 1 in 4 of these have children under the age of 18.

New Mexico is home to 23 federally-recognized tribes, and indigenous societies have been a part of the region for over 2,500 years⁶. This rich history has shaped state culture, though significant disparities exist today between Native residents and the general populace. Around the late 1500s, Spanish colonists arrived in the Southwest and Hispanic influence can be seen throughout the state. Today, New Mexico has a higher percentage of Native American and Hispanic or Latino residents than all of its neighboring states.



³ December 2020 Consensus Revenue Brief (nmlegis.gov)

⁴ <https://www.nmfinance.com/small-business-economic-stimulus-and-recovery/>

⁵ <https://gonm.biz/why-new-mexico/climate-geography/>

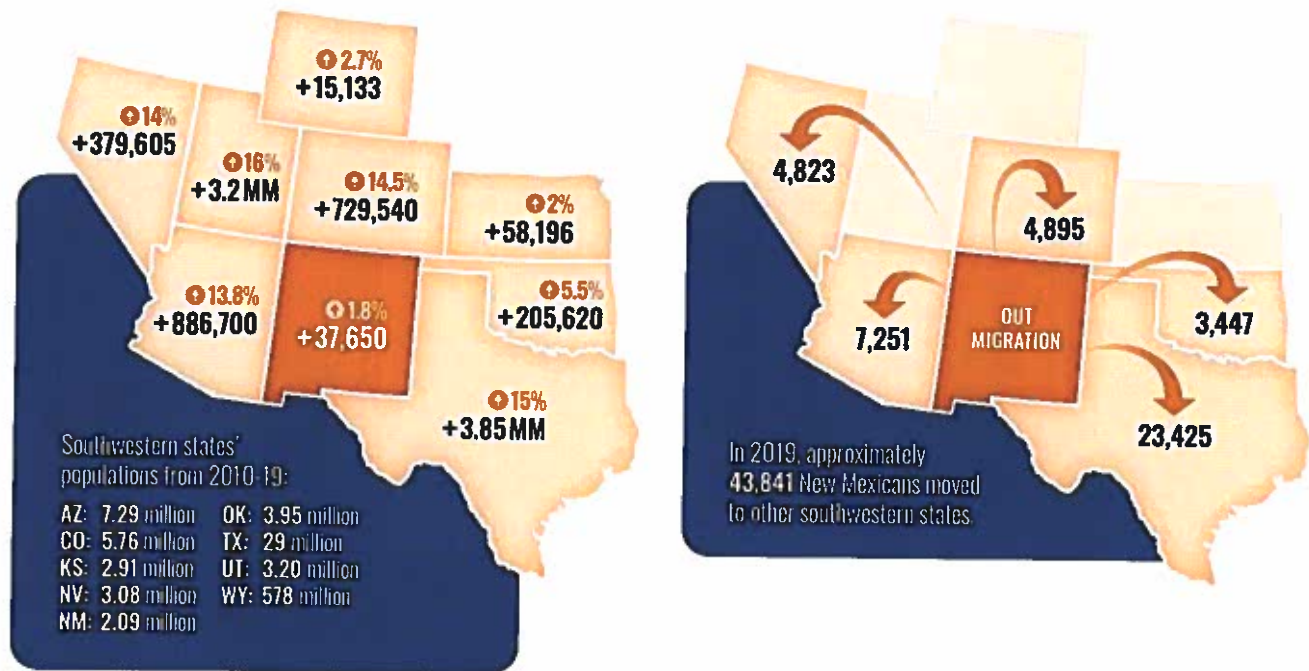
⁶ https://edac.unm.edu/nm_native_lands/

COMPARABLE STATES

When adjusting for population, New Mexico’s economy can be compared to nearby states with similar demographics such as Utah, Arizona, Colorado, Wyoming, Texas, and Oklahoma. Median costs of living in New Mexico⁷, both with and without a mortgage, compare favorably to all of its neighboring states. One significant advantage that New Mexico has is its well-educated and productive workforce. New Mexico is home to three national laboratories and three research universities. The *2017 State New Economy Index* ranked New Mexico as having the second-highest number of high-tech jobs. Unfortunately, maximizing this advantage in the 21st-century requires access to broadband, and New Mexico has fallen short in that regard. New Mexico consistently has ranked among the worst in the nation in terms of broadband access. It ranks behind the neighboring states of Arizona, Colorado, Utah, and Texas in terms of broadband connectivity.⁸

By Population Growth

Population growth in New Mexico lags behind other southwestern states due in large part to an overall trend of out-migration. Data from the American Community Survey indicates that in 2019 approximately 71,212 New Mexicans had moved to another state within the past year. Of this total, approximately 43,841 moved to neighboring southwestern states; approximately 7,251 moved to Arizona, 4,895 to Colorado, 4,823 to Nevada, 3,447 to Oklahoma, and 23,425 to Texas.⁹



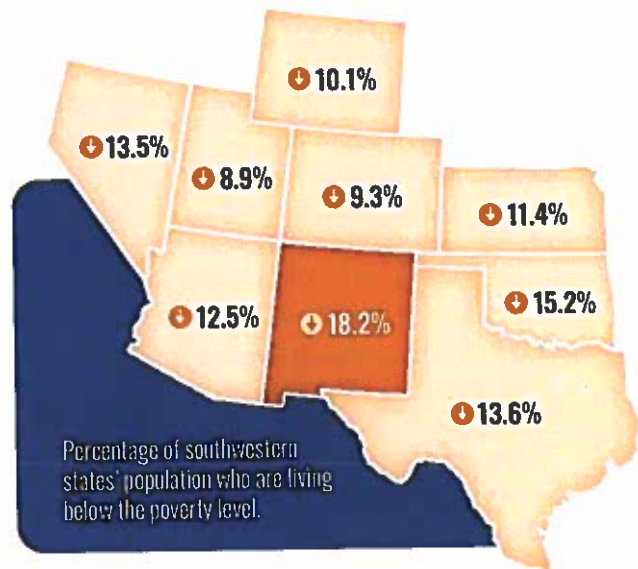
⁷ 50 State Comparisons Data | NMEDD (gonm.biz)

⁸ Internet Access in New Mexico: Stats & Figures (broadbandnow.com)

⁹ State-to-State Migration Flows (census.gov)

By Poverty Rate

According to the Center for American Progress, New Mexico ranks 49th in the nation for overall poverty rate and childhood poverty rate.¹⁰ An estimated 18.2% of New Mexicans, or approximately 373,000 people, are living below the poverty line. New Mexico's poverty rate is higher than the national average of 10.5% and also higher than several neighboring states as shown in the graphic.¹¹

**DEVELOPMENT FINANCE INDICATORS**

New Mexico has several important agencies that finance economic development, chief among them the New Mexico Finance Authority (NMFA) and the New Mexico Economic Development Department (NMEDD). The state legislature created NMFA in 1992 to finance infrastructure projects for counties, cities, and other departments of state government. It was in the same year that the Public Project Revolving Fund was authorized to serve as the primary vehicle for NMFA to accomplish its objective. The State has also created the Governmental Gross Receipts Tax to serve as a credit enhancement for bonds issued by NMFA.¹²

Development Finance Agencies (DFAs) in New Mexico

Development finance tools are deployed by entities with various names, but for this report, these entities will be referred to as Development Finance Agencies (DFAs). Several DFAs in New Mexico are major players in the economic development landscape, some of which offer financing and funding programs and others serve in an administrative role for such programs. Relevant agencies include:

- New Mexico Finance Authority (NMFA)
- New Mexico Economic Development Department (NMEDD)
- New Mexico Environment Department (NMED)
- New Mexico Department of Finance and Administration
- New Mexico Department of Information Technology
- New Mexico Department of Agriculture

Key Economic Sectors

NMEDD produces quarterly economic summaries which detail the state's economic activities by sector using Matched Taxable Gross Receipts. New Mexico's top three sources of underlying economic activity are Retail Trade (23%), Construction (12%), and Professional, Scientific, and Technical Services (10%), with Other Industries accounting for 13% of economic activity.¹³ Tourism, film, and television are also significant economic sectors in the state.

¹⁰ <https://talkpoverty.org/state-year-report/new-mexico-2020-report/>

¹¹ [Poverty Status in the Past 12 Months \(census.gov\)](https://www.census.gov/poverty/data/tables/2019/01/states.html)

¹² [Overview | New Mexico Finance Authority \(nmfinance.com\)](https://www.nmfinance.com/Overview)

¹³ [December 2020 Economic Summary - New Mexico.docx \(gonm.biz\)](https://www.gonm.biz/December-2020-Economic-Summary-New-Mexico.docx)

Traditionally an important economic driver, the film production industry has experienced fluctuating levels of activity in New Mexico over the last five years. The industry directly contributed \$525.5 million to the state’s economy in fiscal year 2019, but only \$274.9 million in fiscal year 2020. This decline was due in part to the slowdown of the industry when production was halted in mid-March 2020 for COVID-19 safety protocols and didn’t resume until mid-September.¹⁴

Sources of Government Revenue

New Mexico operates on a fiscal year beginning on July 1 and ending on June 30. According to New Mexico’s Bureau of Business and Economic Research (BBER), at the end of FY20, the state’s general fund recurring revenues were at \$7.86 billion, a year-over-year decrease of \$149.6 million or 1.9%. The BBER estimates that revenues will decline by \$857.1 million, or 10.9%, from FY20 to FY21. This sharp decline is primarily attributed to the economic performance of the oil market.

Falling oil prices are expected to cause a decrease in gross receipts tax collections on oil production-related revenues and drilling activities. BBER projects that oil and gas activity will account for over 70% of the estimated \$875.1 million decline in FY21 state government revenues.¹⁵ Total gross receipts tax revenues are expected to fall by \$477 million (16%) in FY21, with the mining, quarrying, and oil and gas extraction industries being among the hardest hit by the pandemic.

Matched Taxable Gross Receipts by Industry - FY21 vs FY20 thru September			
Industry	Matched Taxable Gross Receipts	Year-over-Year Growth	Year-over-Year Change
Mining, Quarrying, and Oil and Gas Extraction	\$967,714,312	-\$845,735,327	-46.6%
Utilities	\$823,753,357	\$68,484,781	9.1%
Construction	\$2,081,793,722	-\$207,536,658	-9.1%
Manufacturing	\$453,118,230	-\$66,095,994	-12.7%
Wholesale Trade	\$642,845,367	-\$249,265,803	-28.7%
Retail Trade	\$3,921,524,018	\$262,136,797	7.2%
Transportation and Warehousing	\$171,736,398	-\$74,218,833	-30.2%
Information	\$490,741,370	-\$214,802,060	-30.4%
Real Estate and Rental and Leasing	\$396,365,620	-\$112,384,839	-22.1%
Professional, Scientific, and Technical Services	\$1,668,341,942	\$32,027,831	2.0%
Administrative/Support & Waste Management/Remediation	\$1,064,604,010	\$169,717,651	19.0%
Health Care and Social Assistance	\$973,646,768	\$129,799,883	15.4%
Leisure and Hospitality Services	\$1,052,472,534	-\$317,728,439	-23.2%
Other Industries	\$1,794,487,600	-\$283,033,575	-12.8%
Total	\$16,501,145,248	-\$1,698,434,604	-9.3%

Source: RP 500

¹⁴ [STATS-BY-FISCAL-YEAR-THROUGH-FY20-1.pdf \(nmfilm.com\)](#)

¹⁵ [December 2020 Consensus Revenue Brief \(nmlegis.gov\)](#)

SECTION B: NEW MEXICO'S DEVELOPMENT FINANCE TOOLBOX

New Mexico offers several different types of development finance programs to support business and industry in the state. This section groups financing programs by industry and suggests opportunities for program expansion.

Industries analyzed include:

- Small Business
- Affordable Housing
- Local Governments & Tribal Nations
- Environmental Remediation
- Water & Wastewater
- Clean Energy
- Food & Agriculture
- Broadband

SMALL BUSINESS

According to the Small Business Administration¹⁶, 99% of businesses in New Mexico are small businesses, and they employ approximately 55% of all workers in the state. Firms with fewer than 20 employees have the largest share of small business employment, and small businesses created 7,058 net new jobs in 2019. The industries with the highest concentrations of small business employers include Healthcare, Food Services, and Construction. The impacts of the COVID-19 pandemic on the small business sector are yet to be fully understood. Unemployment rates remain high and statistics related to permanent small business closures will not be fully captured for several months. Many federal and state grant and loan programs were created to help small businesses survive the pandemic. To support the vital small business economy in the state, New Mexico offers several financing programs at NMFA and NMEDD and partners with many intermediaries to deliver capital.

STATE PROGRAMS

Small Business Recovery Loan Fund - NMFA

The Small Business Recovery Loan Fund is New Mexico's primary recovery and relief program for small businesses during the COVID-19 pandemic. The program was recently recapitalized following the passage of Senate Bill 3, which makes up to \$500 million available to extend the Fund while also expanding eligibility and providing more attractive terms for borrowers.¹⁷ This was the second part of New Mexico's recovery and response to the coronavirus.

Smart Money Loan Participation Fund - NMFA

This program allows NMFA to purchase up to 49% of loans originated, underwritten, and serviced by local banks at low, fixed interest rates. NMFA has purchased participations totaling \$6.4 million in six loans across the state through the program.¹⁸ Several stakeholders noted that this program's effectiveness is hindered for various reasons, primarily due to state legislature involvement in the program.

Essential Services Working Capital Program - NMFA

The Essential Services Working Capital program was created in 2020 as an emergency loan program for healthcare entities, childcare businesses, and other critical service providers whose general operations funds may be insufficient to cover costs associated with and meet demand presented by the COVID-19 pandemic. Eligible applicants include rural hospitals, medical supply and equipment manufacturers and providers, healthcare providers, residential healthcare facilities, and research facilities. Loans of up to \$1 million based on need are available.¹⁹

Local Economic Assistance & Development Support Program (LEADS) - NMEDD

Formerly called the Certified Communities Initiative (CCI) until it evolved into the LEADS program in 2016, this program funds economic development projects that create sustainable jobs through recruitment, retention/expansion, or startup activities, develop the tax base, and offer incentives for business development. Through a cost reimbursement contract, NMEDD awards between \$5,000 to \$15,000 per year to eligible projects that apply. In order to be eligible, an applicant must have passed the Local Economic Development Act.²⁰

¹⁶ [SBA 2020 Small Business Profile – New Mexico](#)

¹⁷ [Governor Lujan Grisham Applauds Economic Security Measures \(gonm.biz\)](#)

¹⁸ [Smart Money Business Loan Participation Program | New Mexico Finance Authority \(nmfinance.com\)](#)

¹⁹ [Essential Services Working Capital Program | New Mexico Finance Authority \(nmfinance.com\)](#)

²⁰ [Local Economic Assistance & Development Support Program \(gonm.biz\)](#)

Job Training Incentive Program (JTIP) - NMEDD

Through this program, NMEDD funds on-the-job and classroom training for newly-created jobs for businesses that are expanding or relocating for up to 6 months. The program reimburses 50-75 percent of employee wages. Formerly known as the Industrial Development Training Program, JTIP was created in 1972 by the State Legislature and has since supported nearly 47,000 jobs.²¹ The first round of the program in 2021 funded training for 265 new jobs in economic sectors ranging from science and robotics to paper recycling and consumer manufacturing.²² An additional \$2.8 million in funding was approved in April 2021 for 15 companies to train and upskill a total of 575 employees.²³

New Mexico Catalyst Fund

This fund-of-funds investment vehicle is managed by Sun Mountain Capital. The catalyst fund is capitalized by money from the State Investment Council, private institutional funds, and the State Small Business Credit Initiative (SSBCI). Businesses can contact the portfolio funds directly to seek investment, as each fund offers a different type of capitalization.

Science & Technology Business Start-Up Grants - NMEDD

Science and technology companies with fewer than 50 employees and who are deemed to have 'high growth' potential may apply for grants of up to \$10,000 through NMEDD.

Angel Investment Tax Credit

Qualified investors may claim a tax credit of up to \$62,500 for an investment made in each of up to five New Mexico companies that are engaging in qualified research, as defined by the Internal Revenue Code, or manufacturing.

Local Economic Development Act Job Creation Fund - NMEDD

House Bill 11, signed into law by Governor Lujan Grisham in February 2021, will provide up to \$200 million in grants for New Mexico small businesses through NMEDD's Job Creation Fund.²⁴

SB1 - Restaurant Gross Receipts Tax Deduction

Senate Bill 1 provides temporary relief to eligible food and beverage establishments from paying the gross receipts tax from the period March 1 to June 30, 2021. These include certain craft distilleries, mobile food service establishments, restaurants, and small breweries and wineries.²⁵

New Mexico Small Business Investment Corporation Lending Program

The New Mexico Small Business Investment Corporation (NMSBIC) has cooperative agreements with six revolving loan funds operated by non-profit organizations that lend to under-served small businesses. Since its inception, the program has resulted in over \$90 million in loans made. From 2003 to 2008, NMSBIC also operated an equity program.

²¹ [Job Training Incentive Program \(JTIP\) \(gonm.biz\)](http://gonm.biz)

²² [State Provides Job Training Funding for 265 New Jobs](#)

²³ [State Approves Job Training Funds for 575 Trainees](#)

²⁴ [Gov. cheers legislative passage of House Bill 11 | Office of the Governor - Michelle Lujan Grisham \(state.nm.us\)](#)

²⁵ [Governor Lujan Grisham Applauds Economic Security Measures \(gonm.biz\)](http://gonm.biz)

Primary Care Capital Fund / Behavioral Health Capital Fund

Through these programs, NMFA provides non-profit primary care and behavioral health clinics in rural and underserved areas with loans for capital needs. The Primary Care Capital Fund was created in 1994, and the Behavior Health Capital Fund was created in 2004. NMFA and the Department of Health jointly administer these programs. In 2019 both programs were expanded to allow for increased access to the funds by health clinics owned by counties and municipalities.²⁶

OPPORTUNITIES**Increase Availability of Seed and Venture Capital**

The New Mexico Catalyst Fund and the Angel Investment Tax Credit are two important programs to encourage equity-based financing, however several stakeholders mentioned a need for even more seed and venture capital financing opportunities for start-ups. The state should consider expanding its investment in the New Mexico Catalyst Fund with capital from a new allocation of SSBCI funding. In addition, the state should consider creating or supporting debt-based financing programs for microbusinesses and entrepreneurs who are sole-proprietors. These programs could also be funded using SSBCI allocations. Some stakeholders mentioned that the State Investment Council may not be fully maximizing its funds and could be a source for capitalizing new funds for seed and venture capital programs. Lastly, the New Mexico Business Portal should more prominently feature financing resources for start-ups rather than links to other state agency websites.²⁷

Create a Capital Access Program

In reviewing the New Mexico's small business financing resources, a Capital Access Program (CAP) was notably missing. A CAP makes payments into a lender's loss reserve fund. Once a lender enrolls a loan in the CAP, their loan loss reserve payment is matched by the state. The state would initially capitalize the CAP and then make payments to participating lenders. As they make small business loans, the lender pays a smaller amount than they might normally to establish their own independent reserve fund. Having a CAP in place means that local lenders can take more risks and expand their lending criteria because they have access to additional reserves in the event of a default. The state could use some of its new SSBCI allocation to create a CAP. Typically new CAP programs can be started with \$250K – \$1M and many existing state programs are willing to share their capitalization paperwork.

²⁶ Primary Care Capital Fund / Behavioral Health Capital Fund | New Mexico Finance Authority (nmfinance.com)

²⁷ [SMALL BUSINESS RESOURCE \(nm.gov\)](http://smallbusinessresource.nm.gov)

AFFORDABLE HOUSING

New Mexico has a higher rate of homeownership (67.6%) than the national average (63.8%), and this trend has remained stable for some time. However, the National Low Income Housing Coalition estimates that New Mexico has a shortage of 30,154 homes for extremely low-income households, and that 66% of extremely low-income renters are suffering from severe cost burdens such as sacrificing food or healthcare to pay rent.²⁸

The majority of renters in the state can be found in counties that are home to post-secondary educational institutions such as Doña Ana County (New Mexico State University), Bernalillo County (University of New Mexico), and Roosevelt (Eastern New Mexico University), as well as in Otero and Curry counties where air force base personnel are likely to rent or live on base.²⁹

The New Mexico Mortgage Finance Agency (MFA) leads affordable housing financing and investment in the state, in coordination with three regional housing authorities (Northern, Western, Eastern). They offer several programs for investing in affordable housing, as outlined below.

STATE PROGRAMS

New Mexico Housing Trust Fund - New Mexico MFA

The Housing Trust Fund provides loans of up to \$1.5 million for affordable housing initiatives to non-profits, for-profits, governmental or regional housing authorities, tribal governments, and tribal housing agencies. Eligible activities include the costs of infrastructure, acquisition, rehabilitation to support affordable single-family or rental housing.³⁰

State Neighborhood Stabilization Program - New Mexico MFA

This program is designed to provide funding to communities that are being affected by foreclosures and abandoned properties. The New Mexico MFA receives funding for this program from HUD and makes it available through an RFP process to non-profit, for-profit, and local participating cities that are service providers.³¹

Affordable Housing Tax Credit

This state tax credit can be claimed for up to 50% of the value of cash, land, buildings, or services donated for affordable housing projects that are approved by the New Mexico MFA.³²

Bond Financing

Tax-exempt bonds can be issued for affordable rental housing by the New Mexico MFA. As a conduit issuer, the New Mexico MFA issues bonds that fund the loans of developers without taking on the risk or credit itself. The New Mexico MFA also provides credit enhancement through its 542(c) FHA Mortgage Insurance Program.³³

²⁸ [New Mexico | National Low Income Housing Coalition \(nlihc.org\)](https://www.nlihc.org/)

²⁹ https://www.housingnm.org/assets/content/Final_Version_2020_NM_HNA.pdf

³⁰ [Housing Trust Fund - MFA Housing New Mexico \(housingnm.org\)](https://www.housingnm.org/)

³¹ [State Neighborhood Stabilization Program - MFA Housing New Mexico \(housingnm.org\)](https://www.housingnm.org/)

³² [MFA Housing New Mexico \(housingnm.org\)](https://www.housingnm.org/)

³³ [MFA Housing New Mexico \(housingnm.org\)](https://www.housingnm.org/)

Preservation Revolving Loan Fund

The New Mexico MFA is an approved intermediary of the Section 515 Multifamily Housing Preservation Loan Fund. This program, supported with funding from USDA Rural Development, allows MFA to operate a revolving loan fund to rehabilitate and preserve affordable multifamily housing.³⁴

Primero Loan Program - New Mexico MFA

This program, created in 1993, finances the development of affordable rental or special needs residential facilities that traditional lenders, such as banks, may consider to be high-risk. The loan program is designed to leverage other private and public funds to expand the housing development capacity of New Mexico's nonprofit, tribal, and public housing agencies.

OPPORTUNITIES

Create a Housing Finance and Information Hub

There are several non-profit loan funds for housing that serve the state, but the state lacks a centralized hub with information about them. The New Mexico MFA has some information about them as does the New Mexico State Investment Partnership, but these are decentralized sources that only cover certain topics within economic development. NMEDD or NMFA could work with New Mexico MFA to create a clearinghouse for all housing finance resources within the state.

Target Solutions for Low-Income Households

Because New Mexico is experiencing a shortage of rental homes affordable to extremely low-income households, this housing insecurity could lead to economic insecurity. To help address this need, NMFA and New Mexico MFA should work together to deploy the state's allocation of Capital Magnet Fund resources from the CDFI Fund to create more affordable multi-family housing units. Combining resources between the two agencies could help to leverage more private investment to address this need. Additional funds would not necessarily be needed to develop this strategy; instead, a collaborative effort to use existing resources for greater impact could be developed.

³⁴ [MFA Housing New Mexico \(housingnm.org\)](http://housingnm.org)

LOCAL GOVERNMENTS & TRIBAL NATIONS

The COVID-19 pandemic has exacerbated the challenge of maintaining operating funds faced by local governments and tribal nations. Funding for operating funds has always been scarce in traditional times, but COVID-19 made it much more difficult. Various stakeholder interviews confirmed that cooperation between the local and state levels has been challenging in the past but has slowly improved over time. The same is true for the ability of state agencies to effectively partner with tribal nations and coordinate their financing activities. This section illuminates the variety of federal and state tools available for economic development activities and operating funds specific to Local Governments and Tribal Nations.

STATE PROGRAMS

Local Economic Development Act (LEDA)

Recent, temporary changes to the Act through HB11 will deliver \$200 million in new grants from the state's LEDA fund for rent, lease, or mortgage assistance to pandemic-impacted businesses, including small retailers and restaurants. These grants will be administered by NMFA with job-reporting benchmarks and payments to be managed by NMEDD.³⁵

Public Project Revolving Fund (PPRF)

The PPRF is a program offered by NMFA for financing general infrastructure improvements such as public buildings, road projects, water system upgrades, fire and law enforcement equipment, and more. This revolving loan fund program is vital to New Mexico's toolbox, but projects seeking PPRF funding are subject to legislative authorization.

Tribal Infrastructure Fund

The Tribal Infrastructure Fund was created in 2005 and is operated by the New Mexico Indian Affairs Department. It awards competitive funds to projects that create basic infrastructure such as roads, water and wastewater systems, electric infrastructure, and power lines. Project proposals are submitted to the Indian Affairs Department's 13-person Tribal Infrastructure Board. A 2010 law required the State Board of Finance to allocate 5% of severance tax bonding capacity to tribal infrastructure projects every year.³⁶

Colonias Infrastructure Fund

The 2010 Colonias Infrastructure Act authorized this fund to finance basic infrastructure for solid waste disposal, flood and drainage control, water and wastewater, roads, and housing in southern New Mexico communities. As defined in the Act, a qualified colonia is a rural community with a population of 25,000 or less located within 150 miles of the United States-Mexico border that:

- Has been designated as a colonia by the county or municipality due to:
- Lack of potable water;
- Lack of adequate sewage systems;
- Lack of decent, safe and sanitary housing; and
- Has been in existence as a colonia prior to November 1990.

³⁵ [Governor Lujan Grisham Applauds Economic Security Measures \(gonm.biz\)](https://gonm.biz)

³⁶ [Tribal Infrastructure Fund | NM Indian Affairs Department \(state.nm.us\)](https://state.nm.us)

Local Government Planning Fund

NMFA operates this program to help local and tribal governments, as well as mutual domestic water consumers associations, fund important planning documents for various public infrastructure projects. These grants are made on a sliding scale depending on the entity's ability to pay for the planning document in question.

OPPORTUNITIES**Unify State Support for Local Governments and Tribal Nations**

Municipalities and counties must work with multiple state agencies in order to receive financing support. The Department of Finance and Administration is the lead agency for CDBG funds and is responsible for the administration of Capital Outlay Projects authorized by the State Legislature every year. NMEDD administers the state's Local Economic Development Act funds, while the Public Project Revolving Fund is operated by NMFA. Working with multiple state agencies on different programs with various online applications can be difficult, particularly for rural municipalities with low staff capacity. Standardizing and unifying these programs under a single agency could ease this burden on rural governments. Stakeholder interviews also noted that there is little technical assistance available for economic development practitioners at the local level. Creating training courses or development finance literacy programs to teach local practitioners the best practices would be a wise decision.

Build Stronger Connections with Tribal Nations

Multiple stakeholders cited the need to build and strengthen relationships with tribal nations. It is crucial that the state strengthen relationships with tribal nations to be inclusive. One potential strategy for NMFA or NMEDD to develop these connections is to provide technical assistance and financing programs exclusively for tribal nations. These programs could be offered in coordination with local anchor institution or universities that have stronger ties to tribal nations. Similarly, the Tribal Infrastructure Fund could be expanded by allocating a higher percentage of annual bonding capacity to the program, thereby allowing for the increased financing of infrastructure in tribal nations.

Attract Investment into Opportunity Zones

The Opportunity Zones incentive is a valuable tool in New Mexico's toolbox, but it was seldom mentioned during interviews with stakeholders. NMEDD's Opportunity Zones Hub is a good resource but other state websites such as the New Mexico Business Portal and the New Mexico Partnership don't make any mention of NMEDD's resource. Additionally, few existing state programs placed a priority on funding projects in Opportunity Zones beyond the state offering a cash bonus for projects located in a zone. NMFA and NMEDD should take steps to increase awareness about Opportunity Zones and attract investment into zones by amending existing programs to prioritize financing projects within a zone as well as reaching out and connecting private and non-profit entities with its resources.

ENVIRONMENTAL REMEDIATION

One significant problem for New Mexico communities is the environmental contamination from years of military testing, abandoned mining sites, and leftover hazardous materials. New Mexico has 15 sites on the U.S. EPA's superfund National Priorities List (NPL), 12 of which were added to the list before 2010.³⁷ Bernalillo County and Grant County have the highest concentration of contaminated sites in the state. To address the financing needs related to clean-up and remediation, the New Mexico Environment Department provides several programs.

STATE PROGRAMS

Targeted Brownfields Assessment / Voluntary Remediation Program

The New Mexico Environment Department offers this program for cleaning up a contaminated site, as well as assessing the extent of contamination that may exist on a site.

Recycling and Illegal Dumping (RAID) Grant - New Mexico Environment Department

This program provides \$800,000 annually for grants to prevent and abate illegal dumpsites in New Mexico. Units of local government, solid waste authorities, cooperative associations, and tribes are able to apply for these grants.

Solid Waste Facility Grant Fund - New Mexico Environment Department

Grants of up to \$35,000 are available for a variety of activities related to solid waste facility management, protection, and improvement of the surrounding environment and public health.

Cultural Property Preservation Tax Credit

This tax credit is available to those who restore, rehabilitate, or preserve properties listed on the New Mexico Register of Cultural Properties.

Land Conservation Tax Incentive

This tax credit is available to those that donate land to private non-profit or public conservation agencies for conservation purposes.

Sustainable Building Tax Credit

This tax credit is available to projects that invest in constructing or renovating sustainable residential or commercial buildings that meet "green" building standards.

OPPORTUNITIES

Strengthen Relationships with the EPA

Many stakeholders expressed frustration about the overall lack of funding for environmental cleanup and remediation projects. Several EPA awards were made to New Mexico in 2020, but almost all of them were at the local levels. NMFA should coordinate with the New Mexico Environment Department to determine other funding opportunities available from the EPA to support state-level activities. Regular communication with EPA Region 6 staff should occur to be able to proactively plan for EPA funding opportunities. Of note, the Brownfields Revolving Loan Fund Grant could be a good program for the state to expand its financing capabilities.

³⁷ [National Priorities List \(NPL\) Sites - by State | Superfund | US EPA](#)

WATER & WASTEWATER

New Mexico faces two critical water challenges: severe drought and contaminated water systems. According to the National Oceanic and Atmospheric Administration, New Mexico is highly susceptible to drought because of its arid climate but also because approximately half of the state is used for farming with limited irrigation options.³⁸ Further, the American Society of Civil Engineers estimates that New Mexico's drinking water needs approximately \$1.4B of investment and that 219 dams in the state are potentially hazardous.³⁹ New Mexico was recently ranked among the states with the highest average number of water systems health violations.⁴⁰

There are several decentralized sources of financing and information on operating water and wastewater systems in the state, including at NMFA, New Mexico Environment Department (NMED), New Mexico Soil and Water Conservation Commission, and New Mexico Department of Agriculture.

STATE PROGRAMS

Drinking Water State Revolving Fund

The New Mexico Finance Authority operates the state's revolving loan fund and co-administers the DWSRF program with NMED. The fund provides low-cost financing to public water systems for new construction or improvements to existing networks. Private non-profit and for-profit water systems are also able to apply for funds, albeit at a slightly higher interest rate.

Clean Water State Revolving Fund

The state's Clean Water Revolving Fund provides low-interest loans for a wide range of projects related to wastewater, stormwater, and non-point source pollution infrastructure that protect surface and groundwater resources. Eligible entities include municipalities, counties, water and sanitation districts, mutual domestic water associations, and Pueblos and tribes.

Public Project Revolving Fund (PPRF)

The Public Project Revolving Fund is a revolving loan fund operated by NMFA for local governments to finance water and wastewater infrastructure projects.

Water Project Fund - NMFA

NMFA manages the Water Project Fund on behalf of the 16-member Water Trust Board and provides the board administrative support. In order to receive a loan or grant from the fund, the project must be recommended by the Water Trust Board and authorized by the Legislature. Several stakeholders commented that this approval process is overly burdensome.

Rural Infrastructure Revolving Loan Program

Low-interest loans are provided to rural communities through this program for water, solid waste, and wastewater projects. Mutual Domestic associations or water and sanitation districts serving municipalities with populations of under 20,000, or counties of populations under 200,000, are eligible to apply for a loan. It should be noted that this

³⁸ [Drought Vulnerability in the United States: An Integrated Assessment](#)

³⁹ [New Mexico Infrastructure | ASCE's 2021 Infrastructure Report Card](#)

⁴⁰ [More than 25m drink from the worst US water systems, with Latinos most exposed | US news | The Guardian](#)

program, operated by the New Mexico Environment Department, is separate from the NMFA's Public Project Revolving Fund.

Grants for Soil and Water Conservation Districts

The New Mexico Soil and Water Conservation Commission awards grants annually to Soil and Water Conservation Districts for water quality and conservation projects through an RFP process.

OPPORTUNITIES

Improve Management of Rural Water Systems

Stakeholder interviews indicated that the operators of rural water systems often lacked the training and knowledge necessary to maintain their water networks. Moreover, many rural water systems are run by volunteer boards. Rural water systems often do not have taxing authority, whereas water and sanitation districts generally do have taxing authority, making it difficult to achieve economies of scale on the regional level. The New Mexico Environment Department is taking steps to improve on the situation, as evidenced by a recently received \$200,000 grant from the U.S. EPA to train water utility operators in underserved areas and tribal communities.⁴¹ It would be prudent for New Mexico's Environment Department to expand its offerings, such as technical assistance to rural water system managers and its Drinking Water Capacity Program, to further increase rural water systems operators' management and compliance of their systems. Further, elevating the status of rural water board volunteers to be professionals would allow for them to have more access to technical assistance and training.

The NMED Drinking Water Bureau should actively engage with entities such as the New Mexico Rural Water Association and Rural Community Assistance Corporation (RCAC) to help increase the level of technical assistance that is currently being provided to rural water systems, particularly small Mutual Domestic that lack technical, managerial, and financial capacity. The multitude of issues faced by these small water systems in rural areas cannot be satisfactorily addressed by any one entity, and therefore collaboration will be key with NMED taking the lead. Technical Assistance to these communities should also include promoting a more cost-efficient operation of multiple local water systems through Regionalization, including the potential for physical connections and/or joint operations. While regional water collaboration has seen a few successes in New Mexico, the concept has largely been set aside in favor of neighboring small water systems attempting to address their mounting infrastructure needs on their own.

Consolidate Duplicative Programs

The duplicative nature of several programs, particularly in the water and wastewater sector, means that applicants must work with several different agencies and multiple applications. These programs include the Public Project Revolving Fund, the Rural Infrastructure Revolving Loan Fund, the Water Project Fund, and the State Revolving Funds for Clean Water and Drinking Water. The multitude of issues faced by small water systems – particularly in rural areas – cannot be satisfactorily addressed by any one entity when multiple agencies are all trying to accomplish the same goal without coordination. Therefore New Mexico could consider consolidating some of these duplicative programs under one agency.

⁴¹ [New Mexico Environment Department receives EPA grant for water utility operator training in underserved areas](#)
[| US EPA](#)

Increase Assistance to Mutual Domestic Water Consumers Associations

Many Mutual Domestic Water Consumers Associations (MDWCA's) lack technical, managerial, and financial capacity. Additionally, the smaller MDWCA's with less than 300 connections have little to no historic debt capacity and therefore have difficulty taking on sizable enough loans to adequately address the infrastructure improvement needs of their water systems. The 2021 Capital Outlay Projects bill (House Bill 285) was passed in the Regular Session and awarded over \$511 million to various infrastructure improvement projects. Unfortunately, HB285 awarded only about 1% of the \$511 million to MDWCA systems. Capital Outlay remains one of the only sources of funding for Design and Construction of infrastructure projects that is delivered as 100% grant funding with no loan or local match component. Any reform to the Capital Outlay process should place an emphasis on prioritizing projects with the greatest socio-economic need in an effort to deliver grant funds to entities such as small MDWCA's that cannot afford to take on loans from other State and Federal Programs.

CLEAN ENERGY

New Mexico is the third-largest oil producing state in the nation and accounts for approximately 9% of all U.S. crude oil production.⁴² The state is very vulnerable to fluctuating oil prices, effecting government revenues and available jobs. To combat this, that state has been proactively investing in clean energy solutions to strengthen the local economy. Even though coal-fired power plants still account for the greatest share of net electricity generation in New Mexico, the state has become one of the top 10 natural gas-producing states, and wind energy accounted for 21% of New Mexico's utility-scale electricity net generation in 2020.

In addition, the National Renewable Energy Laboratory conducted an analysis of residential energy efficiency potential in New Mexico finding that basic, cost-effective improvements could save New Mexico's single-family homes an estimated \$273.6M per year on utility bills.⁴³

Financing programs to expand New Mexico's sustainable and green energy economy are housed at NMEDD, NMFA, and the New Mexico MFA.

STATE PROGRAMS

Advanced Energy Tax Credit

This tax credit is for stakeholders that hold an interest in a qualified power-generating facility.

Alternative Energy Product Manufacturers Tax Credit

This tax credit is available to those who manufacture certain alternative energy products.

Biodiesel Blending Facility Tax Credit

This tax credit is available to those who are a rack operator who installs biodiesel blending equipment.

Blended Biodiesel Fuel Tax Credit

This tax credit is available to those who pay special fuel excise tax on blended biodiesel fuel.

Renewable Energy Production Tax Credit

This tax credit is available to projects that produce electricity by solar light or heat, wind, or biomass.

NM EnergySmart Program

Through the EnergySmart Program, the New Mexico Mortgage Finance Authority awards funds to community action agencies, non-profits, and local governments through an RFP process. The recipients use awarded funds for upgrades to homes such as insulation, caulking, new windows, new heating systems, and more. Homes receive an average of \$6,000 in energy efficiency through the program, and families save an average of \$350 to \$500 on utility costs each year.⁴⁴

⁴² [U.S. Energy Information Administration](#)

⁴³ [Residential Energy Efficiency Potential: New Mexico \(nrel.gov\)](#)

⁴⁴ [MFA Housing New Mexico \(housingnm.org\)](#)

Property Assessed Clean Energy (PACE) Program

The New Mexico Energy Conservation and Management Division oversees the PACE program for counties. The PACE financing model allows for property owners to access affordable capital to make energy efficiency upgrades to their properties by allowing the local municipality to place a special assessment on the property's tax bill. The debt is associated with the property, not the property owner, and therefore is repaid by the property owner via the assessment on the tax bill, making the costly energy efficiency upgrades affordable in the long term.

OPPORTUNITIES

Expand the Property-Assessed Clean Energy (PACE) Program

Overall, New Mexico has too few state-level programs that finance projects in the clean energy sector. The New Mexico state legislature passed a Property-Assessed Clean Energy (PACE) law in 2009 to allow counties to create PACE programs. NMFA should consider advocating that the PACE law be expanded to allow for statewide programs. If the legislative effort is successful, NMFA could issue a bond to capitalize the PACE program to begin helping residents and businesses access affordable energy efficiency upgrades. Alternatively, NMFA could work with the New Mexico Energy Conservation and Management Division to spearhead technical assistance and training programs to encourage more PACE programs to exist at the local levels.

Permanently Authorize Clean Energy Tax Credits

The authorization for two of the state's energy tax credit programs recently lapsed and had to be reauthorized; namely the Solar Market Development Tax Credit and the Geothermal Heat Pump Tax Credit. Repeatedly having to reauthorize tax credits can cause uncertainty in the private sector and discourage investment. NMFA and NMEDD should work together in making a case to the legislature for why these tax credits should become permanent.

Increase Clean Energy Bond Issuance

The New Mexico Energy, Minerals and Natural Resources Department operates the Clean Energy Revenue Bond Program, which helps cover the up-front costs and bond repayments for state agencies, universities, and school districts wanting to make energy efficiency improvements. The capacity of this popular bond program is regularly maxed out. Stakeholders suggested that the program's capacity should be increased by the legislature to serve more constituents and projects.

FOOD & AGRICULTURE

Many communities have already incorporated food systems into their economic development strategies and supporting local food businesses and initiatives. However, there continues to be a demand to increase capital that supports local and regional food systems. In order to do this, New Mexico should frame the food system as an opportunity for economic development. Partnerships must be built to bridge existing gaps and engage the right partners, and a strategic financing plan must be used to coordinate and utilize available financing. The New Mexico Food and Agricultural Policy Council is a state-wide organization that focuses on advocacy and policy surrounding the food sector across the state. However, the lack of financing coordination between the state's Department of Agriculture and NMFA is an impediment to strengthening the overall food system.

STATE PROGRAMS

Agricultural Biomass Tax Credit

This tax credit is available for taxpayers that transfer agricultural biomass from a dairy or feedlot to a facility using that agricultural biomass to generate electricity for commercial uses. The credit is equal to \$5 per wet ton of agriculture biomass.

Agricultural Water Conservation Tax Credit

A tax credit is available for projects that are making eligible improvements in irrigation systems or water management methods.

Healthy Soil Program - New Mexico Department of Agriculture

This program was created in 2019 and offers grants to farming and ranching systems for increasing the organic matter in soil, aggregate stability, maximize biodiversity, and increase soil water retention. Eligible entities include nations, tribes, pueblos, soil and water conservation districts, the State University's Cooperative Extension Service, land grants, and acequias.⁴⁵

Hemp Program - New Mexico Department of Agriculture

Hemp was removed from the Drug Enforcement Agency's Schedule 1 Controlled Substance list by the 2018 Farm Bill. Subsequent legislation allows states to continue operating hemp pilot programs through September 2021. The New Mexico Department of Agriculture is issuing both Annual and Continuous Hemp Commercial Research Production Licenses and is keeping growers updated on any policy or rule changes at both the state and federal levels.⁴⁶

⁴⁵ [Healthy Soil Program - New Mexico Department of Agriculture \(nmsu.edu\)](https://www.nmsu.edu/extension/healthy-soil-program)

⁴⁶ [Hemp Program - New Mexico Department of Agriculture \(nmsu.edu\)](https://www.nmsu.edu/extension/hemp-program)

OPPORTUNITIES

Create a Food-Focused Revolving Loan Fund

Several stakeholders commented on the need for capital solutions to support agricultural technology and entrepreneurs working to modernize the state's food system. NMFA should consider creating a food-focused revolving loan fund to encourage business activity in this sector. The fund could be capitalized through federal sources such as the Economic Development Administration or USDA Rural Development.

Develop an Aggie Bond Program

Aggie Bonds, also referred to as Beginning and Expanding Farmer Loan Programs, are small issue bonds that exist to support qualified farmers and ranchers with eligible purchases of farmland, equipment, buildings, and livestock. Tax-exempt Aggie Bonds provide an attractive, affordable source of capital for first-time farmers looking to invest in a new business venture by decreasing the overall cost of financing to the borrower. An Aggie Bond program will need to be authorized by the state legislature before NMFA could be approved to issue these bonds. This recommendation is also included in the Resilience in New Mexico Agriculture Strategic Plan from 2017.⁴⁷

⁴⁷ [Resilience in New Mexico Agriculture Strategic Plan](#)

BROADBAND

New Mexico ranks 48th in the nation in terms of broadband accessibility in households.⁴⁸ Based on a recent report from the New Mexico Department of Information Technology, broadband access and deployment in rural areas is lagging behind urban areas.⁴⁹ According to the FCC, rural and tribal areas experienced mobile LTE deployment rate increases of only 70% and 64% respectively in 2016, compared with a 90% increase in the urban deployment rate. Fixed high-speed broadband services were also deployed faster in urban areas than in rural areas. This unbalanced rate of deployment has resulted in rural connectivity being far behind. Data consistently points to rural communities across the nation lacking both fixed and mobile high-speed broadband access, and the same is true in New Mexico.

STATE PROGRAMS

Broadband Access and Expansion Fund

In early 2021, the New Mexico Legislature passed a bill creating a new office under the Department of Information Technology and a new broadband fund that would receive annual appropriations. This new office is called the New Mexico Office of Broadband Access and Expansion, and it will oversee the new Broadband Access and Expansion Fund that will pay for new broadband projects. The fund will be capitalized with between \$55 million and \$135 million in 2021.⁵⁰

OPPORTUNITIES

State and Local Government Fiscal Recovery Funds - American Rescue Plan

Subtitle M of the American Rescue Plan Act of 2021 provided \$219 billion to states, tribal governments, and territories through a Coronavirus State Fiscal Recovery Fund, as well as \$130 billion to local governments for a Coronavirus Local Fiscal Recovery Fund. Subsection D states that these Fiscal Recovery Funds may be used “to make necessary investments in water, sewer, or broadband infrastructure.”⁵¹

The State of New Mexico received \$1.75 billion from the American Rescue Plan, and non-entitlement units of local government as well as 5 metropolitan cities in New Mexico also received funds directly from the U.S. Department of the Treasury through the Coronavirus State and Local Relief Fund. Counties in New Mexico also received funds; of note, Bernalillo County received nearly \$132 million, Doña Ana County received \$42.3 million, Santa Fe County received \$29 million, and Sandoval County received \$28.5 million. The cities in New Mexico that directly received funds were Albuquerque (\$108.8 million), Farmington (\$9.8 million), Las Cruces (\$24.7 million), Rio Rancho (\$12.8 million), and Santa Fe (\$15.2 million).⁵²

NMFA should engage the Governor’s office and the New Mexico Department of Information Technology to strategize about how these funds could be deployed to address the broadband needs in the state’s economic development strategies.

⁴⁸ <https://www.lcsun-news.com/story/news/local/new-mexico/2018/12/26/new-mexico-rank-states-least-connected-broadband-internet/2411338002/>

⁴⁹ [New Mexico Broadband Program - Map Gallery: Statewide](#)

⁵⁰ [New Mexico Senate passes bill for new broadband office \(lcsun-news.com\)](#)

⁵¹ [Broadband Support for State and Local Govts Under ARPA \(natlawreview.com\)](#)

⁵² [Coronavirus State and Local Fiscal Recovery Funds | U.S. Department of the Treasury](#)

SECTION C: RECOMMENDATIONS

During the course of CDFA's research, several areas emerged for improving New Mexico's development finance toolbox and delivery of capital. These recommendations are compiled from insight collected during stakeholder interviews, analysis of current programs, and expertise from CDFA's nationally recognized development finance best practices. This section offers suggestions and solutions to address structural shortcomings in New Mexico's development finance landscape and improve the availability of financing programs.

ADDRESS STRUCTURAL SHORTCOMINGS

The current structure of New Mexico's development finance landscape is hindering economic growth and investment in the state. Most notably, the current capital outlay process allows the state legislature, rather than economic development agencies or organizations, to pick which projects receive financing from several major programs. This is the most significant barrier to economic development in the state. Additionally, the lack of a consolidated funding application and a lack of coordination between state agencies is making it difficult for businesses to engage with New Mexico's programs. CDFA recommends the following actions for improvement:

Reform the Capital Outlay Process

Reforming the capital outlay process is the single most important action that would catalyze economic development finance in New Mexico.

According to the New Mexico Legislative Finance Committee, state agencies are required by law to enter their capital improvement projects into the Infrastructure Capital Improvement Plan database by July 1, a process in which local governments, special districts, and tribal governments usually participate. Funds are first allocated to statewide projects based on Legislative Finance Committee staff recommendations and any remaining funds are typically divided between the House and Senate, where each member receives an allocation for possible projects in their district. The capital outlay bill is created to include statewide projects and member projects and is then voted on. Once passed, the Governor acts on the bill.⁵³

Because the legislature must first approve funding from certain programs, projects relying on that capital struggle to leverage private investment and meet construction or financing milestones. In addition, with legislators in each district receiving a certain share of funding during the capital outlay process, project developers often rely on these very legislators for approval, which could create opportunities for misalignment of interests. Dividing up that funding based on a formula, rather than a need-based system, often means that expansive or transformative projects do not receive the necessary funding. Lastly, with the Governor having the final decision on that capital outlay bill, it is possible that a line-item veto could eliminate funding for certain projects.

Instead, the legislature should consider appropriating funds to specific financing programs and then delegating authority to the appropriate state agencies to make financing decisions. Those agencies would then be able to more quickly and more efficiently meet the needs of critical economic development projects. The legal costs to institute this change is unknown, but the investment in a more objective funding appropriations process is expected to drive significantly more private capital to the state. Reforms to the capital outlay process should place a greater emphasis

⁵³ [Finance Facts - Capital Outlay \(nmlegis.gov\)](#)

on projects that have elevated socio-economic needs, and those that do not have the capacity for taking on debt from other state and federal programs.

Create a Consolidated Funding Application

A single point of entry that offers a streamlined application process would make it easier for practitioners to better understand and navigate New Mexico's funding process. One potential solution could be to create a unified funding application as other states such as New York have done. A central portal would make it much easier for applicants to navigate available opportunities and apply for funding based on a project's needs, rather than multiple applications to different programs.

Creating an application of this nature would also be helpful to state agency employees and representatives by keeping project information in one central location. It should be noted, however, that setting a single application deadline for all financing programs would create a bottleneck in the administrative review process. Creating a consolidated funding application portal that is a flexible tool for both project developers and agency representatives will help deliver capital in a more user friendly and efficient way.

The significant up-front capital costs needed to invest in a consolidated application should be shared across all agencies benefiting from the system. A formal training process should be put in place as well. Once launched, however, routine maintenance should be minimal and could be managed by one lead agency. There are also online systems that can ease the administrative burden of applications and reporting economic activities. Below is one example.

Improve Coordination Between State Agencies

Conducting joint marketing between state agencies is also another potential solution for improving public awareness of programs. In New Mexico, several agencies distribute their own newsletters, but there is no one place that captures news, funding opportunities, and activities for all of the state's economic development agencies. This type of product could potentially be developed by NMEDD, with the primary cost being staff time to collect information and distribute on a regular basis.

In addition, analyzing all of New Mexico's financing programs was very difficult because of the decentralized nature of the state. Every agency has its own list of programs but often does not mention any other financing programs in similar sectors offered by other agencies. For example, NMEDD's Key Industries webpages have lists of financing programs offered by NMEDD and the Department of Taxation and Revenue but makes no mention of financing programs offered by NMFA, NMED, or any other state agency.⁵⁴ Similarly, the Agency Updates page on www.NewMexico.gov does not provide hyperlinks to each agency's website, list the function of each agency, or even mention NMFA.

Providing consistent information about all financing programs will help businesses, investors, and industry leaders develop a more complete picture of the economic development landscape in New Mexico. Decreasing the time and cost a business expends to access capital means that there will be more for that business to invest in jobs and economic activity. By making it easier to access information across all agencies, the state will do a better job of meeting its commitment to offer a competitive business climate.

⁵⁴ [Incentives for New Mexico Business \(gonm.biz\)](http://gonm.biz)

Explore Possibility of Consolidating Financing Programs Under One Entity

New Mexico may find that the recommendations above may be easier to implement if programs are consolidated under one economic development agency. Doing so would improve the overall coordination of New Mexico's economic development landscape by centralizing programs and applications under one entity. New Mexico could examine whether the consolidation of several agencies' activities would be beneficial. Below are examples of how the consolidation of programs increased the latitude and flexibility of other state and local agencies to finance economic development and leverage private investment.

EXAMPLE 1: ILLINOIS FINANCE AUTHORITY

The Illinois Finance Authority (IFA) is a quasi-public agency created by State statute through the consolidation and elimination of seven State authorities and entities. IFA is authorized by the Illinois Finance Authority Act to issue tax-exempt and taxable bonds and to make and guarantee non-conventional loans. IFA does not receive appropriated funding from the State and operates at no cost to the taxpayer.

Governing the IFA is a fifteen-member, non-paid Board appointed by the Governor and confirmed by the Senate. Leading the IFA team is the Executive Director, who is nominated by the Governor and appointed by the Board. The Board of Directors, the Executive Director and the IFA staff offer a breadth of combined experience in economic development, industrial development, small business management, real estate development, housing, health facilities financing, local government financing, infrastructure financing and public-private partnerships.

EXAMPLE 2: MASSDEVELOPMENT

As the Commonwealth of Massachusetts' economic development and finance authority, MassDevelopment is committed to achieving three goals: stimulating business, driving economic growth, and helping communities thrive across Massachusetts. Over time, the agency has been given broad flexibility to lead these activities.

MassDevelopment formed in 1998 from a merger of the Government Land Bank and Massachusetts Industrial Finance Agency. The Massachusetts Health and Educational Facilities Authority was merged into MassDevelopment in 2010, strengthening the depth of offerings for tax-exempt bond financing of capital projects.

MassDevelopment's work in finance and development impacts many facets of the Massachusetts economy in cities and towns across the Commonwealth. Priorities include providing low-cost and creative financing options for a range of organizations, sustainably redeveloping surplus properties, transforming the Commonwealth's Gateway Cities, and promoting Massachusetts' manufacturing and defense sectors.

EXAMPLE 3: ALLEGHENY COUNTY ECONOMIC DEVELOPMENT AND ITS AUTHORITIES

In addition to the state examples listed above, there is also precedent for efficiencies at the local level. In Allegheny County, the Department of Economic Development (ACED) is a function of Allegheny County government. In addition to this Department, Allegheny County also had six Municipal Authorities, each with a separate Board of Directors and staff. These Authorities had various purposes consisting of: issuing Tax Exempt Bonds for 501 (c)(3) organizations and manufacturing businesses, providing low-interest loans for Municipalities, managing a revolving loan fund, operating a first-time homebuyers program, and administering a vacant property program among many others. Approximately 30 years ago, in an effort to operate more efficiently and effectively, all of these Authorities were absorbed by Allegheny County.

However, the Authorities were not dissolved. Four of the Authorities with almost identical missions were consolidated into one group of Board members that served on these Authorities. The remaining two Authorities kept their individual board of directors. These six Authorities were managed by the ACED pursuant to an administrative agreement each Authority has with the Department of Economic Development.

Although managed by ACED, the Authorities operate independently from Allegheny County. The Authorities are not constrained by typical government bureaucracy. As a result, the Authorities can move quickly regarding project development and approvals. The structure of the Authorities also makes it easier to create new programs. Three programs created rather quickly by the Authorities were: 1) A revolving loan fund for minority and women owned businesses; 2) A grant fund for municipalities and non-profit organizations; and 3) A municipal consolidation program. All of these three programs would have been very difficult to create under ACED for the reasons referenced above.

CREATE NEW FINANCING PROGRAMS

Section B of this report identified several areas of opportunity to create new financing programs at the state level. Those recommendations are consolidated here for easy reference:

Create a Capital Access Program

In reviewing the New Mexico's small business financing resources, a Capital Access Program (CAP) was notably missing. A CAP makes payments into a lender's loss reserve fund. Once a lender enrolls a loan in the CAP, their loan loss reserve payment is matched by the state. The state would initially capitalize the CAP and then make payments to participating lenders. As they make small business loans, the lender pays a smaller amount than they might normally to establish their own independent reserve fund. Having a CAP in place means that local lenders can take more risks and expand their lending criteria because they have access to additional reserves in the event of a default. Typically, new CAP programs can be started with \$250K – \$1M and many existing state programs are willing to share their capitalization paperwork.

State Small Business Credit Initiative (SSBCI)

The SSBCI program was re-introduced and passed as part of President Biden's American Rescue Plan Act of 2021. Notably, the total amount available to states through the program was increased to \$10 billion. Of this amount, New Mexico's allocation is \$56,234,176. The state could use some of its new SSBCI allocation to create a CAP. For the first iteration of the SSBCI program - beginning in 2010 and lapsing in 2017 - NMEDD received \$13 million in funds and entered into a Memorandum of Understanding with NMFA to administer a loan participation program.

While many other states offered loan participation programs as well as Capital Access Programs, NMFA's loan participation program was the only offering eligible for capitalization from both SSBCI and Statewide Economic Development Revolving Fund. With the new iteration of the SSBCI program and \$56 million in funding, New Mexico has the opportunity to create a new Capital Access Program and fill one of its biggest economic development voids.

NEW MEXICO SENATE BILL 440

New Mexico Senate Bill 440 would have not only provided much-needed independence for NMFA, but it would have also allowed NMFA to utilize federal funds received for capital access programs in a more efficient manner. Despite the first iteration of the SSBCI program proving greatly beneficial to New Mexico communities, SB440 would ease

the impending administrative burden on NMFA and NMEDD while increasing the flexibility of SSBCI funds for usage in more programs. Senate Bill 440 would have created a Capital Access Program which would have provided matching funds to banks to create Loan Loss Reserves as an incentive to the SSBCI program.

Additionally, due to the sheer magnitude of funds available from the newly-reauthorized SSBCI program, the administrative burden placed on NMFA would be high, because NMFA would be operating as if they were the actual Lender. Without SB440's passage, NMEDD would need to first review eligibility of applications for the NMFA-administered Statewide Economic Development Revolving Fund before NMFA could move forward with reviewing the application. SB440 would've fixed this administrative issue and therefore would improve the efficiency and timely processing of applications for the Statewide Economic Development Revolving Fund.

Senate Bill 440 would also have allowed NMFA to operate much more efficiently when working with developers to finance projects. During the due diligence phase, oftentimes companies have to supply confidential and proprietary information to NMEDD so eligibility can be determined, but this must be done only to the extent permitted under the Inspection of Public Records Act. The expectation is that information will remain confidential free from competitors. SB440 would eliminate the obligation of NMEDD to review the eligibility of applicants. The NMEDD Cabinet Secretary still serves of the NMFA Board, so NMEDD would still have the opportunity to voice any objections to a particular project. Without the passage of SB440, the slow the approval process will remain as-is.

Attract Investment into Opportunity Zones

The Opportunity Zones incentive is a valuable tool in New Mexico's toolbox, but it was seldom mentioned during interviews with stakeholders. NMEDD's Opportunity Zones Hub is a good resource but other state websites such as the New Mexico Business Portal and the New Mexico Partnership don't make any mention of NMEDD's resource. Additionally, few existing state programs placed a priority on funding projects in Opportunity Zones beyond the state offering a cash bonus for projects located in a zone. NMFA and NMEDD should take steps to increase awareness about Opportunity Zones and attract investment into zones by amending existing programs to prioritize financing projects within a zone as well as reaching out and connecting private and non-profit entities with its resources.

Create a Food-Focused Revolving Loan Fund

Several stakeholders commented on the need for capital solutions to support agricultural technology and entrepreneurs working to modernize the state's food system. Unfortunately, several stakeholders indicated that the food and agriculture sector lacked sufficient financing opportunities. Revolving Loan Funds (RLFs) are a very popular development finance tool with thousands operating throughout the U.S. and typically several hundred within each state. They are typically used for operating capital, acquisition of land and buildings, new construction and renovations, and purchasing machinery and equipment. NMFA should consider creating a food-focused revolving loan fund to encourage business activity in this sector. The fund could be capitalized through federal sources such as the Economic Development Administration or USDA Rural Development.

Develop an Aggie Bond Program

Aggie Bonds, also referred to as Beginning and Expanding Farmer Loan Programs, are small issue bonds that exist to support qualified farmers and ranchers with eligible purchases of farmland, equipment, buildings, and livestock. Tax-exempt Aggie Bonds provide an attractive, affordable source of capital for first-time farmers looking to invest in a new business venture by decreasing the overall cost of financing to the borrower. These programs are often managed by the state agriculture department or a similar authority, and while any state can establish one of these programs, currently about half of U.S. states have active Aggie Bond programs. An Aggie Bond program will need to

be authorized by the state legislature before NMFA could be approved to issue these bonds. This recommendation is also included in the Resilience in New Mexico Agriculture Strategic Plan from 2017.⁵⁵

EXPAND EXISTING FINANCING PROGRAMS

Section B of this report identified several areas of opportunity to expand or strengthen existing financing programs at the state level. Those recommendations are consolidated here for easy reference:

Increase Availability of Seed and Venture Capital

The New Mexico Catalyst Fund and the Angel Investment Tax Credit are two important programs to encourage equity-based financing, however several stakeholders mentioned a need for even more seed and venture capital financing opportunities for start-ups. The state should consider expanding its investment in the New Mexico Catalyst Fund with capital from a new allocation of SSBCI funding. In addition, the state should consider creating or supporting debt-based financing programs for microbusinesses and entrepreneurs who are sole-proprietors. These programs could also be funded using SSBCI allocations. Some stakeholders mentioned that the State Investment Council may not be fully maximizing its funds and could be a source for capitalizing new funds for seed and venture capital programs. Certain programs have also lapsed in authorization, such as the Innovation Fund, which expired due to a change in administration. Lastly, the New Mexico Business Portal should more prominently feature financing resources for start-ups rather than links to other state agency websites.⁵⁶

Fully Utilize the State Investment Council's ETI Program

Interviews with stakeholders revealed that several programs are no longer being fully utilized. One of these is the State Investment Council's ETI Program. One stakeholder shared that the ETI program only has around 70% of its funds committed, and if this program's usage was maximized to its fullest potential, it could invest \$100 million or more in small businesses. The program's under-utilization is due to the State Investment Council's reluctance to invest due to the fear of not achieving a high return on investment, as well as the State Investment Council's lack of coordination with the economic development agencies.

Expand the Property-Assessed Clean Energy (PACE) Program

Overall, New Mexico has too few state-level programs that finance projects in the clean energy sector. The New Mexico state legislature passed a Property-Assessed Clean Energy (PACE) law in 2009 to allow counties to create PACE programs. NMFA should consider advocating that the PACE law be expanded to allow for statewide programs. If the legislative effort is successful, NMFA could issue a bond to capitalize the PACE program to begin helping residents and businesses access affordable energy efficiency upgrades. Alternatively, NMFA could work with the New Mexico Energy Conservation and Management Division to spearhead technical assistance and training programs to encourage more PACE programs to exist at the local levels.

Permanently Authorize Clean Energy Tax Credits

The authorization for two of the state's energy tax credit programs recently lapsed. These include the Solar Market Development Tax Credit, which sunset in 2016, and the Geothermal Heat Pump Tax Credit, which sunset in 2020. The Solar Market Development Tax Credit was reauthorized in 2020 by the state legislature. Yet repeatedly having to reauthorize tax credits can cause uncertainty in the private sector and discourage investment. NMFA and NMEDD should work together in making a case to the legislature for why these tax credits should become permanent.

⁵⁵ [Resilience in New Mexico Agriculture Strategic Plan](#)

⁵⁶ [SMALL BUSINESS RESOURCE \(nm.gov\)](#)

Increase Clean Energy Bond Issuance

The New Mexico Energy, Minerals and Natural Resources Department operates the Clean Energy Revenue Bond Program, which helps cover the up-front costs and bond repayments for state agencies, universities, and school districts wanting to make energy efficiency improvements. The capacity of this popular bond program is regularly maxed out. Stakeholders suggested that the program's capacity should be increased by the legislature to serve more constituents and projects.

Increase Flexibility of Existing Programs

Another recurring point was the inflexibility of some of the state's existing programs as well as slow approval processes for funding from certain programs. Practitioners from the state recognized that some programs at NMFA and NMEDD were inflexible due to state regulations and the capital outlay process. Numerous stakeholders expressed a desire for Finance New Mexico, LLC to streamline its application process for allocations of New Markets Tax Credits. Several interviewees noted that banks can be hindered by NMFA and NMEDD frequently changing the rules for their loan funds. Overall, the state should make an effort to increase the flexibility of its programs. Reaching consensus on regulations and policy requires patience, but it can be accomplished. Hosting listening sessions with community stakeholders and economic development practitioners, then communicating the input received to lawmakers and policymakers is one possible starting place for consensus-building.

POLICY CONSIDERATIONS

Public policy decisions can impact the ability of Development Finance Agencies (DFAs) to finance economic development projects. When public resources are used to finance projects, the success of these projects is likely to drive future public financing and policy considerations. DFAs such as NMFA and NMEDD must choose programs in the toolbox that adhere to broader public policy goals and allocate precious public resources efficiently. Pragmatic policymaking may help to expand the capacity of the state's DFAs to take on new development projects.

By tailoring policies to local businesses and projects, regions with fewer economic clusters and stagnant growth can be empowered to encourage development that otherwise would not take place. These regions can start by looking internally and examining their own policies to see whether they are hindering development or if they have policies that are unfavorable to development. If communities can reduce costs from the start, a project is more likely to move from the planning phase to the construction phase.

For example, communities without sufficient housing stock could implement a policy allowing accessory dwelling units. Allowing accessory dwelling units to be built can reduce costs for developers by requiring the construction of fewer stand-alone units. Accessory dwelling units also can meet the need for affordable housing.⁵⁷ Municipalities may also consider updating their modular home and mobile home policies as a means to reduce costs and expand the availability of affordable housing, as well as waiving fees and permitting for such units.

Onerous permitting processes slow the pace of development and make the location less attractive to prospective developers. Streamlining permitting processes at the local level creates a climate for commercial, residential, and industrial development. Struggling communities can make themselves ripe for economic development by adopting the right policies. These are just a few examples of policies that New Mexico communities can examine to catalyze economic development.

⁵⁷ [Jumpstarting the market for accessory dwelling units | The Berkeley Blog](#)

LEVERAGING TECHNOLOGY TO ACHIEVE DEVELOPMENT GOALS

The financing process for smaller communities is generally more costly and time-consuming than it is in populated urban areas, and stakeholder interviews indicated that the same is true for New Mexico. Multiple stakeholders pointed out that there aren't enough entities interested in investing in rural areas of the state. Further, each step of the process of obtaining financing uses valuable staff time. Technology offers a way to make the financing process more efficient and less costly, while also enabling communities to better track and target investments.

Unfortunately, there are sometimes barriers to these tools that can make them inaccessible for communities. Some of these tools have costs to access, and smaller communities often lack the necessary funds. Financial technology can require knowledge that may not be present in communities that have volunteer administrators, for example. Setting up online tools can be time-consuming, and in some cases, the community must devote staff to manage them. However, the benefits of utilizing financial technology outweigh the challenges when entities can overcome these barriers to accessibility.

Participating in emerging technologies and making use of online platforms can broaden the scope of investors that can potentially contribute to economic development in New Mexico's towns, tribal nations, and villages. Some technologies can provide opportunities to capture private investment from banks or other bond buyers outside of New Mexico. Some tools can give small communities access to national pools of private angel investors, and other platforms can visualize data to help administrators make the most of existing resources. Below are some online tools that have the flexibility and adaptability to be integrated in communities of all sizes, particularly those with low staff and managerial capacity.

FinTech Tools

New technologies are revolutionizing public and private financing. Financial technologies are colloquially referred to as "FinTech." Technological improvements and innovations in the financial sector have provided more avenues for communities to increase capacity. Online financial marketplaces can reduce the time and effort needed for transactions. New technologies like Blockchain, an online transaction record-keeping system that cuts out expensive intermediaries by hosting the data simultaneously on several linked computers, are revolutionizing the capital markets. Blockchain can also provide cost-saving measures for smaller communities and reduce staff time associated with transactions. There are a number of innovative entities in the FinTech space and blockchain space which could be beneficial for communities to examine as they build out their economic development finance strategy.

There are several FinTech firms working to improve access to the capital markets. One organization working in the municipal markets is Neighborly. Neighborly is the first community investment marketplace where individual investors can access the \$3.6 trillion municipal bond market and invest in projects that make an impact in communities that they care about or in projects that they are passionate about. Another prominent FinTech entity is the Clarity BidRate Alternative Trading System (Clarity), which is an online trading platform for variable-rate debt obligations (bonds that have a floating interest rate). Issues placed on Clarity are traded exclusively on the platform and are priced through a competitive bidding process. Issuers, investors, broker-dealers, and banks use the Clarity system. Organizations like Neighborly and Clarity are redefining the way that communities and investors are interacting with one another.

With the advent of electronic tools like Neighborly and Clarity, communities with low staff capacity can connect with investors and other stakeholders interested in supporting their projects more readily than ever before.

Geographic Information Systems (GIS) and Intelligent Development

Geographic Information Systems, or GIS, is a mapping technology that allows users to overlay geospatial data points on maps. The flexibility of this tool is extraordinary but its use as a community and economic development tool is just beginning to be critically examined. Economic developers from all types of communities look to make effective, informed, and impactful decisions with the use of their often-limited resources. GIS gives these practitioners the ability to conduct visualization, modeling, and analysis on development projects and goals.

In rural development particularly, GIS has the potential to provide hyper-specific locational information on investment and economic development outcomes which can then be used for providing key economic viability statistics for financing projects. Through GIS tracking, the aggregated data can provide more targeted and specific information about economic development programs and their efficacy in communities. Another potential use for this information would be grant development and reporting. Grant management can often be challenging for smaller communities because of their lack of capacity. GIS technology allows for a new method of identifying parts of the community that are not being served by grants or economic development strategies, as well as tracking the outcomes of such initiatives. Through all of these uses, GIS can stem inefficiency and reduce the workload of rural economic developers while increasing capacity and efficacy.

In order to effectively leverage this new GIS technology, it is important for the community to first understand what it needs as well as identify its targeted goals. GIS is dependent on significant data aggregation, so it is important for the community to engage with a GIS firm to overcome the challenges associated with utilizing a comprehensive GIS mapping tool for economic development.

Local economic development practitioners do not always have the budget to pay for a GIS subscription. In these cases, planning departments or rural administrators may be able to apply for grants from NMEDD or even the U.S. EDA to fund a GIS system. Building relationships with these agencies to gain access to these systems can be a less-expensive alternative.

Operating Online Tools to Accelerate Economic Development in Rural Areas

Communities big and small can make use of internet-based tools to accelerate the economic development process. Online permitting portals speed up the permitting processes for business, residential, and zoning permits. Yet small towns and villages in New Mexico that lack the capacity of a metropolitan area can still benefit from such tools. Online tools can provide information on cost, searches for the zoning of all addresses in the area, answers questions based on responses from users, and creates helpful step-by-step instructions based on data gathered from users – all things that would otherwise require valuable staff time. Rural communities can overcome capacity issues by using the internet to streamline processes, thereby reducing the amount of work that must be performed by community staff.

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