



NMFA Programs, Structure and Budget



PRESENTATION TO THE LEGISLATIVE FINANCE COMMITTEE

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NMFA Purpose

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

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

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Mission Based Financing

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

Infrastructure and Capital Equipment Projects—The NMFA currently operates three active programs for infrastructure and capital equipment projects: the Public Project Revolving Fund, the Local Government Planning Fund and the Colonias Infrastructure Project Fund

Water —The NMFA currently operates three active programs for water: Drinking Water State Revolving Loan Fund, the Water Project Fund and the Acequia Project Fund

Community Facilities and Economic Development —The NMFA currently operates five active programs for community facilities and Economic Development: Primary Care Capital Fund, Behavioral Health Capital Fund, the New Markets Tax Credit Program, Smart Money Loan Participation Program and the federally funded Collateral Support Participation Program (SSBCI)

- ◆ NMFA’s “flagship” program
- ◆ Established in 1992 through the New Mexico Finance Authority Act 6-21-6.0 by Sen. Eddie Lopez (SB 172)
- ◆ Low-cost financial assistance for capital equipment, building and infrastructure projects
 - ◆ Standard Rate – Tax-exempt market interest rates (based upon the PPRF’s ‘AAA’/Aa1 bond ratings)
 - ◆ Disadvantaged Rate – 0% or 3% based upon Median Household Income, for projects up to \$200,000
 - ◆ Disadvantaged funding increased 25% from FY 2013 to FY 2014
- ◆ The NMFA annually presents to the Legislature a project authorization list which allows NMFA to meet the project timing needs of New Mexico’s communities

Public Project Revolving Fund

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- ◆ Qualified entities include: local governments, tribal governments, state agencies, public schools, higher education institutions, special districts, volunteer fire districts
- ◆ NMFA staff work with local officials in the following areas:
 - ◆ Credit and debt capacity analyses
 - ◆ Loan structuring assistance
 - ◆ Evaluation of refinancing opportunities
- ◆ Original mission of providing low-cost loans still being met; however, PPRF's high bonds ratings are more important now than ever before:
 - ◆ Municipal bond market changed profoundly over past several years
 - ◆ Ability to improve ratings with bond insurance is very limited
 - ◆ Unprecedented level of scrutiny and oversight by federal regulators
 - ◆ Enforcement actions by the SEC and IRS are likely to increase
 - ◆ Smallest of systems will likely be hit the hardest

- ◆ Created in 2002 as New Mexico Finance Authority Act 6-21-6.4 by Sen. Campos (SB 40)
- ◆ Provide upfront capital necessary to allow for proper planning of vital water and wastewater projects
- ◆ Initially, statute required that entity repay “grant” if funding for project was received; this provision was eliminated in 2012
- ◆ Broadened twice
 - ◆ In 2005, to include master plans, conservation plans & economic development plans
 - ◆ In 2012, to allow infrastructure plans

Colonias Infrastructure Program

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- ◆ Created in 2010 through the establishment of the Colonias Infrastructure Finance Act 6-30-1.0 by Sen. Papen (SB 279)
- ◆ Provide capital to infrastructure projects in designated Colonia communities
- ◆ Funded from 5% of the Senior Severance Tax Bonds annually
- ◆ Overseen by the Colonias Infrastructure Board, administered by the NMFA
- ◆ Three funding cycles have occurred to date

Drinking Water State Revolving Loan Fund

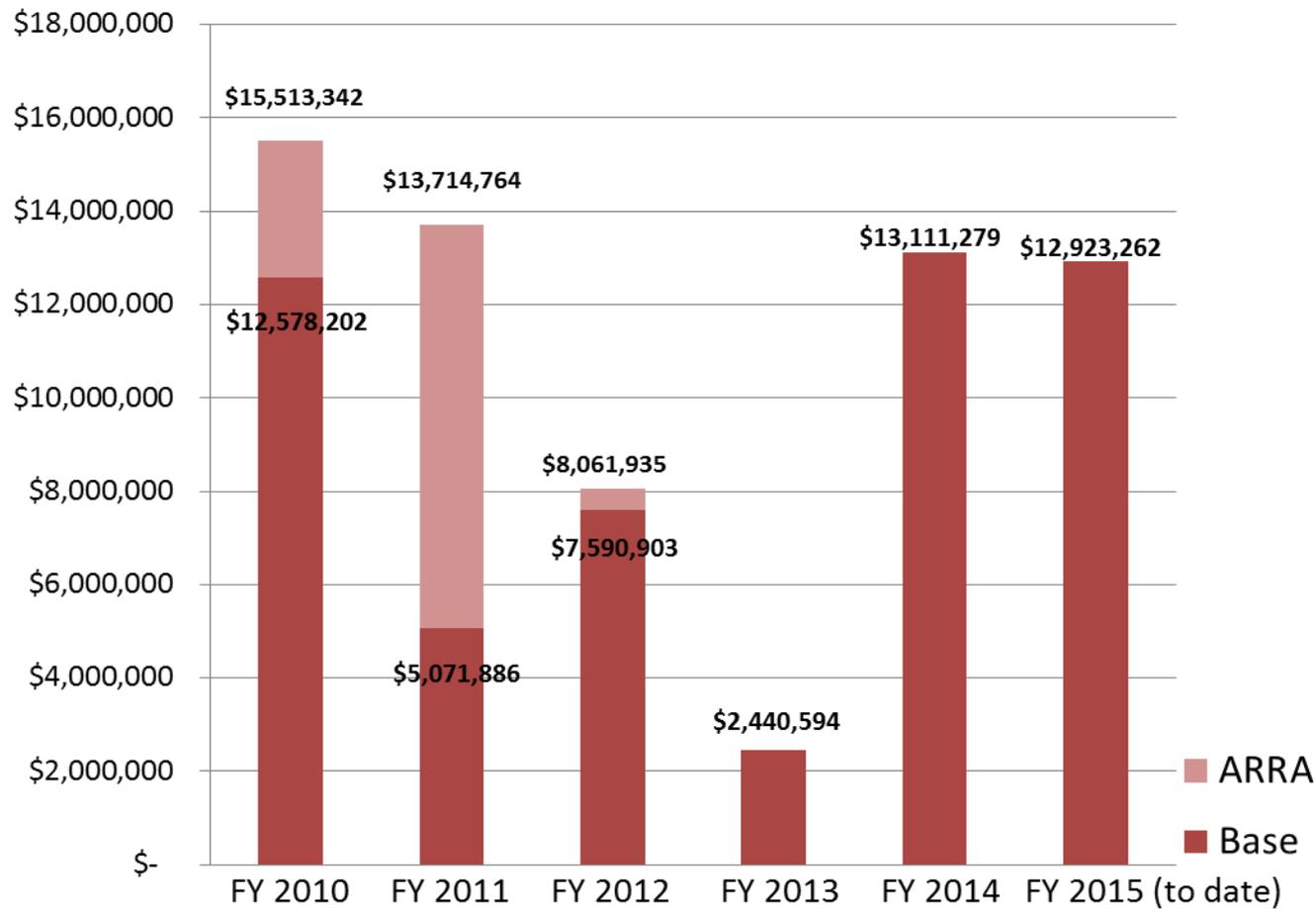
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- ◆ Established in 1998 through the Drinking Water State Revolving Loan Fund Act 6-21A-4 by Rep. Gary King (HB 592)
- ◆ Low-cost financial assistance for construction and improvements to drinking water facilities
- ◆ DWSRLF Act partners NMFA with the New Mexico Environment Department in the administration of the program. NMED quarterly publishes a Fundable Priority List and NMFA accepts applications from the list in the order in which they are listed.
- ◆ State Revolving Loan Fund capitalized by:
 - ◆ \$172.5 million in federal awards
 - ◆ \$31.5 million in state match
 - ◆ \$32.8 million in interest and loan repayments
- ◆ To date, NMFA has made 78 loans totaling \$156.8 million and has approved another nine loans totaling \$28.7 million

- ◆ Last year, the Office of Inspector General reviewed the SRF programs in five states, including New Mexico, due to the high level of unspent federal dollars.
- ◆ As of the date of review period, the unprecedented growth in NMFA's Drinking Water loan approvals in FY 2013 and 2014 had not yet shown any measurable increase in expenditure rate.
- ◆ However, New Mexico's spending pace has increased dramatically in the past six months.
- ◆ New Mexico reduced its net unspent federal funds by more than 11% from FFY 2013 to FFY 2014.
- ◆ NMFA is poised to meet EPA's target of "unliquidated obligations" by the end of FY 2015

Drinking Water State Revolving Loan Fund

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- ◆ 20 projects in construction in FY 2014
- ◆ 58% of FY 2014 draws occurred in 4th quarter
- ◆ 15 projects in construction in FY 2015
- ◆ 57% of FY 2015 draws are from one project
- ◆ NMFA projects that it will fully expend two capitalization grants in FY 2015 bringing it in-line with EPA targets

- ◆ Established in 2002 through the Water Project Finance Act & 2-4A-9 by Rep. Joe Stell (HB534)
- ◆ Funded from an annual distribution from the Water Trust Fund and 10% of Senior Severance Tax Bonds
- ◆ Provides grants and low-cost loans for five types of water projects:
 1. Water conservation, treatment, recycling, and reuse projects;
 2. Flood prevention projects;
 3. Endangered species act (ESA) collaborative projects;
 4. Water storage, conveyance and delivery projects;
 5. Watershed restoration and management projects
- ◆ NMFA makes grants and loans recommended by 16-member Water Trust Board and authorized by Legislature

- ◆ Created in 2004 by amending the Water Project Finance Act 72-4A-9.1 by Sen. Cisneros (SB 87)
- ◆ Funded to date from donations from a New Mexico Foundation interested in water projects
- ◆ NMFA makes grants recommended by 16-member Water Trust Board and authorized by Legislature
- ◆ Under current policy, Acequia Project Fund grants are used for planning projects only

Primary Care Capital Fund

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- ◆ Established in 1994 through the Primary Care Capital Funding Act 24-1C-4 by Rep. Olguin (HB 702)
- ◆ NMFA and Department of Health jointly administer program
- ◆ Funds directed to non-profit primary care clinics with assets of less than \$20 million in rural and medically underserved communities
- ◆ 3% interest, with terms of 10 years for equipment and 15 years for land & building
- ◆ Up to 20% of annual principal and interest is forgiven in exchange for services rendered to indigent patients
- ◆ 2005 Legislature expanded eligibility to include school based health centers and tele-health sites

Behavioral Health Capital Fund

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- ◆ Established in 1994 through the Behavioral Health Capital Funding Act 6-26-4 by Sen. Papen (SB 284)
- ◆ Similar to Primary Care Capital Fund
- ◆ Jointly operated with Human Services Department
- ◆ Finance capital needs of small behavioral health clinics
- ◆ Non-Profit clinics with assets of \$10 million or less
- ◆ Funds directed to clinics in rural and medically underserved communities
- ◆ SB 52 from 2005 Legislature authorized NMFA to capitalize fund with \$2.5 million from Cigarette Tax Revenue Bonds

- ◆ Operated under the Statewide Economic Development Finance Act which was amended in 2006 to explicitly allow NMFA to participate in NMTCs by Rep. Lundstrom (HB 277)
- ◆ NMFA partnered with NM Community Capital to form Finance New Mexico, LLC, which was certified by the US Dept. of Treasury as a Community Development Entity in 2006
- ◆ Finance New Mexico has received two allocations of federal NMTCs totaling \$156 million; virtually all has been invested
- ◆ The program is operated using an Advisory Board made up of community leaders across the state. The Advisory Board is required by the federal program and its purpose is to ensure that investments are benefiting low income persons as intended
- ◆ Financings may only occur in federally designated low income communities as determined by census tract

Economic Development Revolving Fund

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- ◆ The EDRF is segregated into two sub-accounts to account separately for State and Federal Appropriations:
- ◆ \$5.1 million in net State Appropriations
 - ◆ \$10 million General Fund appropriation in 2005; \$5 million was reverted for solvency in 2010
 - ◆ \$2 million appropriation in 2007; \$1.9 million was reverted for solvency in 2011
- ◆ \$13,168,350 in Federal funds received through the State Small Business Credit Initiative in three payments. All three tranches have been received.

- ◆ Established in 2003 through the Statewide Economic Development Finance Act 6-25-1 by Sen. Aragon (SB 934)
- ◆ Allows NMFA to purchase interests in loans made by banks to private for-profit and not-for-profit entities; borrowers must agree to hire a specific number of employees in exchange for the financing
- ◆ NMFA may purchase up to 49% interest in any one loan as long as the borrower agrees to create at least 1 job per \$50,000 of Smart Money borrowed
- ◆ Under amendments made in 2005, NMFA may only make loans to projects determined eligible by the New Mexico Economic Development Department and authorized for funding from the Legislature. Legislation passed in 2011 temporarily halted (until June 30, 2016) the authorization requirement

Collateral Support Participation Program

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- ◆ Program operated by the same rules and statute as Smart Money
- ◆ In June 2011, the NMFA signed an MOU with the NM Economic Development Department to administer the \$13.2 million in funding made available through the Federal Small Business Jobs Act of 2010. The program is overseen by the US Dept. of Treasury
- ◆ The funds are intended to help mitigate bank risk and increase the flow of capital to small businesses
- ◆ New Mexico uses the funds to help provide funding where Smart Money has been unable to help
- ◆ The State is required to leverage 10 private dollars for each Federal dollar by December 31, 2016

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- ◆ NMFA has requested the third tranche of funds

Why Loan Participations?

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- ◆ A loan participation allows NMFA to participate in a business loan by buying a portion of a loan made by a local bank
- ◆ With NMFA's participation programs, the bank applies to the NMFA on behalf of a business by submitting the information the bank used to reach its lending decision
- ◆ Participations allow NMFA to fill the financing gap and lower costs for New Mexico businesses
- ◆ The bank originates and services the loan as it otherwise would. The NMFA pays a small servicing fee to the bank for the additional work
- ◆ In short, participations allow NMFA to partner with, not compete against, local banks in funding New Mexico businesses

NMFA 2014 Program Activity

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	<u>Projects closed in FY14</u>		<u>Projects closed in FY13</u>	
PPRF	\$ 103,795,297.50	63	\$ 61,080,402.92	65
COPS	\$ -	0	\$ -	0
Planning Grants	\$ 495,000.00	11	\$ 575,769.00	13
Colonias	\$ 18,303,406.00	42	\$ 11,403,114.00	34
Drinking Water	\$ 8,070,789.00	9	\$ 25,526,002.00	16
Water Trust Board	\$ 27,882,698.00	27	\$ 32,074,968.61	25
Acequias	\$ 160,000.00	9	\$ 15,000.00	1
Primary Care	\$ -	0	\$ -	0
Behavioral Health	\$ 620,000.00	1	\$ -	0
NMTC	\$ 27,000,000.00	3	\$ 17,940,000.00	2
Smart Money	\$ 576,000.00	1	\$ 1,372,000.00	1
Collateral Support	\$ 1,795,678.00	4	\$ 789,318.00	4
Child Care	\$ -	0	\$ -	0
Total	\$ 188,698,868.50	170	\$ 150,776,574.53	161

2014 Program Activity

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	<u>Loans Receivable FY14</u>	<u>Loans Receivable FY13</u>
PPRF	\$ 1,087,184,238.98	\$ 1,140,531,911.52
COPS	\$ 53,000.00	\$ 108,000.00
Planning Grants	\$ -	\$ -
Colonias	\$ 661,349.60	\$ 202,731.00
Drinking Water	\$ 67,239,036.18	\$ 65,958,029.16
Water Trust Board	\$ 21,222,995.98	\$ 18,159,314.74
Acequias	\$ -	\$ -
Primary Care	\$ 4,822,145.75	\$ 5,348,204.26
Behavioral Health	\$ 1,168,302.44	\$ 639,789.40
NMTC	\$ 154,286,000.00	\$ 124,346,000.00
Smart Money	\$ 4,681,764.39	\$ 4,161,710.35
Collateral Support	\$ 3,312,526.66	\$ 2,461,746.02
Child Care	\$ 19,809.86	\$ 25,973.06
Total	<u>\$ 1,344,651,169.84</u>	<u>\$ 1,361,943,409.51</u>

Audit Findings Status Matrix

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Board Governance

Status

Senate Bill 12

Certified Public Accountant on Board of Directors	Completed
Entrance/Exit Conference attended by Audit Committee	Completed
Audit Committee meets regularly with auditors during audit	Completed
Deposits should be made in New Mexico banks	Completed
Minutes and Records approved and maintained	Completed

External Audit

Status

Noted by PWC, HEK, RLD/SD & REDW

Timeliness of External Audit	Completed
Compliance with Federal Requirements	Completed
Compliance with Bond Covenants	Completed

Internal Audit

Status

Noted by PWC, HEK, RLD/SD & REDW

Internal Audit Position -- contract in progress	In Progress
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Audit Findings Status Matrix

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State Compliance

Noted by REDW

Payment of funds without an approved audit contract

Timely Cash Receipts Deposits

Travel and per diem

Equipment

Status

Completed

Completed

Completed

Completed

Accounting Practices

Noted by PWC, HEK, RLD/SD & REDW

Bank reconciliations timeliness - cutoffs

Invoice documentation/Credit Card usage

Journal Entry support

Treatment for extraordinary items

Fringe benefits reporting to IRS

Lack of up-to-date Procedures

Status

Completed

Completed

Completed

Completed

Completed

Completed

Audit Findings Status Matrix

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Loan Servicing

Status

Noted by PWC, HEK, RLD/SD & REDW

System Implementation for Loan Origination (SILO) Implementation In Progress

Work began in July 2014 and expected to be completed in summer 2015

Estimated Completion	Planning Task	Estimated Completion	Procurement Task
4 Months	Preparation of: Procedures Required Reports Policies	2 to 3 Months	RFP Issuance and Responses Received Bidders submit questions NMFA prepares responses to bidders' questions
2 Months	Preparation of: Data Flow Diagrams Requirements and Desires	1 Month	Evaluation of RFP Responses
2 Months	Review Requirements and Desires Perform a "Fit Gap Analysis" of NMFA's current system Develop a possible RFP for a new NMFA system	1 Month	Completion of RFP Responses Oral presentation by top vendors Selection of Vendor Contract Negotiations

FY 2014 Budget to Actual Highlights

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5 employee vacancies remained throughout the year resulting in decreased personnel expenses: lower levels of travel, training, and education expenses.

Administrative fee revenue and processing fee revenue is down due to a lack of NMTC allocation, reduced loan receivables in PPRF, and reduced bond funded PPRF loans.

Grant revenue and expense are up as activity has increased in the Drinking Water, Water Trust Board, Colonias, and Planning Grant programs.

\$115 million in PPRF bonds were defeased, increasing capacity and reducing interest costs in the future.

FY 2015 Budget Highlights

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Personnel expenses are reduced as several unfilled positions from FY 2014 were eliminated. Budgeted positions have been reduced from 46 to 40. One of the eliminated positions was the internal auditor, which will be a contracted service and expensed under professional services.

Professional service expenses also increased as a result of hiring a technical writing firm to help with compliance and the continuing development of the loan servicing system.

Operating expenses increased as a result of an increase in insurance and telephone services related to our IT disaster recovery initiative.

NMFA projects it will fund a higher volume of bonded loans which will result in increased processing fees and interest revenue.