

NEW MEXICO  
**FINANCE AUTHORITY**

1

Presentation to Economic and  
Rural Development and Policy Committee

# **Small Business Capital Landscape Research Findings**

Marquita Russel, *Chief Executive Officer*  
Ryan Marie Decker, *Policy & Capital Strategist*

October 13, 2023

- **Kathy Keith, Chair**
  - **Martin Suazo, Vice Chair**
  - **AJ Forte, Secretary**  
New Mexico Municipal League
  - **Andrew Burke**
  - **James Kenney**  
NM Environment Dept
  - **Jon Clark**  
NM Economic Development Dept
  - **Joy Esparsen**  
New Mexico Counties
  - **Ronald Lovato**
  - **Sarah Cottrell Propst**  
Energy, Minerals and Natural Resources
  - **Wayne Propst**  
NM Dept of Finance & Administration
  
  - One vacancy
- ◆ Broad-based finance agency created in 1992 as a government instrumentality
  - ◆ Governed by an 11-member independent Board
    - Approves rules, policies, and projects
    - Oversees operations and approves budget
    - Active Committee process provides high level of oversight of NMFA's diverse and complex operations
  - ◆ Staffed with 63 diverse financial professionals (71 budgeted FTEs)
  - ◆ Expansive programming and service to New Mexico
    - Authorized to operate 24 programs through 13 Acts
    - New Mexico Finance Authority Act (Section 6-21-2):
      - Purpose: "...to coordinate the planning and financing of state and local public projects..."
    - Statewide Economic Development Finance Act (Section 6-25-6):
      - Purpose: "assist eligible entities in financing projects" and to promote "achievement of economic development goals..."
  - ◆ Overseen by 32-Member NMFA Oversight Committee

# Statutory Authority

3

Active	Funded	FY	Program Name	Enabling Act	Statute	Policy Partner
✓	✓	1992	Public Project Revolving Fund	New Mexico Finance Authority Act	6-21.6	Legislature
✓		1994	Primary Care Capital Fund	Primary Care Capital Funding Act	24-1C-4	DoH
✓	✓	1997	Drinking Water State Revolving Loan Fund	Drinking Water State Revolving Loan Fund Act	6-21A-4	NMED
		1999	Water and Wastewater Grant Fund	New Mexico Finance Authority Act	6-21-6.3	Legislature
✓	annually	2001	Water Project Fund	Water Project Finance Act	72-4A-9	WTB/LEG
✓	✓	2002	Local Government Planning Fund	New Mexico Finance Authority Act	6-21-6.4	Various
✓	?	2003	Loan Participation Program (Smart Money)	Statewide Economic Development Finance Act	6-25-6	NMEDD
		2003	Child Care Revolving Loan Fund	Child Care Facility Loan Act	24-24-4	ECECD
		2004	Acequia Project Fund	Water Project Finance Act	72-4A-9.1	WTB/ISC/Leg
✓		2004	Behavioral Health Capital Fund	Behavioral Health Capital Funding Act	6-26-4.	HSD
		2005	Energy Efficiency & Renewable Energy Bonding Act	New Mexico Finance Authority Act	6-21D-5	EMNRD
		2005	Local Transportation Infrastructure Fund	New Mexico Finance Authority Act	6-21-6.8	DOT
✓	✓	2006	New Markets Tax Credit	Statewide Economic Development Finance Act	6-25-6	FNM/NMEDD
		2007	Local Government Transportation Fund	New Mexico Finance Authority Act	6-21-6.12	DOT
✓	annually	2010	Colonias Infrastructure Project Fund	Colonias Infrastructure Finance Act	6-30-8	CIB
✓	○	2011	Collateral Support Participation Program	Statewide Economic Development Finance Act	6-25-6	NMEDD
✓		2021	Essential Services Working Capital Program	Statewide Economic Development Finance Act	6-25-6	NMEDD
✓	○	2021	New Markets Tax Credit Small Loan Pool	Statewide Economic Development Finance Act	6-21-6.12	FNM/NMEDD
✓		2021	Small Business Recovery Loan Fund	Small Business Recovery and Stimulus Act	6-32-3	Legislature
✓		2021	New Mexico LEDA Recovery Grants	Local Economic Development Act	5-10-16	NMEDD/Leg
✓	✗	2022	Cannabis Microbusiness Program	Statewide Economic Development Finance Act	6-25-6	RLD/NMEDD
✓	✓	2022	Venture Capital Fund	Venture Capital Program Act	6-33-3	(NMEDD)
✓	✓	2022	Charter School Facility Revolving Fund	Charter School Facility Improvements Act	6-21-6.16	(PSCOC)
✓	✓	2022	Opportunity Enterprise Fund	Opportunity Enterprise Act	6-34-12	OERB
○	○	2024	SSBCI Capital Access Program	Statewide Economic Development Finance Act	6-25-6	NMEDD

# Statewide Economic Development Finance Act



4

- ◆ The Statewide Economic Development Finance Act (“SWEDFA”) assigns powers and duties to the New Mexico Economic Development Department (“NMEDD”) and NMFA to jointly administer several programs seeking to increase business activity in rural and underserved areas, attract new and retain and expand existing businesses, and promote an environment suitable for start-up and emerging businesses throughout the state
- ◆ The Economic Development Revolving Fund (“EDRF”) is the Fund created under SWEDFA from which NMFA may make loans, purchase loan participations and bonds, and provide guarantees. Program success has been limited by availability of capital as only \$5.1 million of state funding has been provided since its inception in 2003
- ◆ **Federal State Small Business Credit Initiative (“SSBCI”) provides great opportunity and capital for impact**
- ◆ Established by the Small Business Jobs Act of 2010, is a federal program that seeks to increase the flow of capital to small business. ~\$1.5 billion to small business financing programs throughout the country in 2011
- ◆ SSBCI gives states significant flexibility to design programs that meet local market conditions and small business needs seeking to increase access to capital to small businesses so long as \$1 federal dollar leverage \$10 private dollars

# State Small Business Credit Initiative

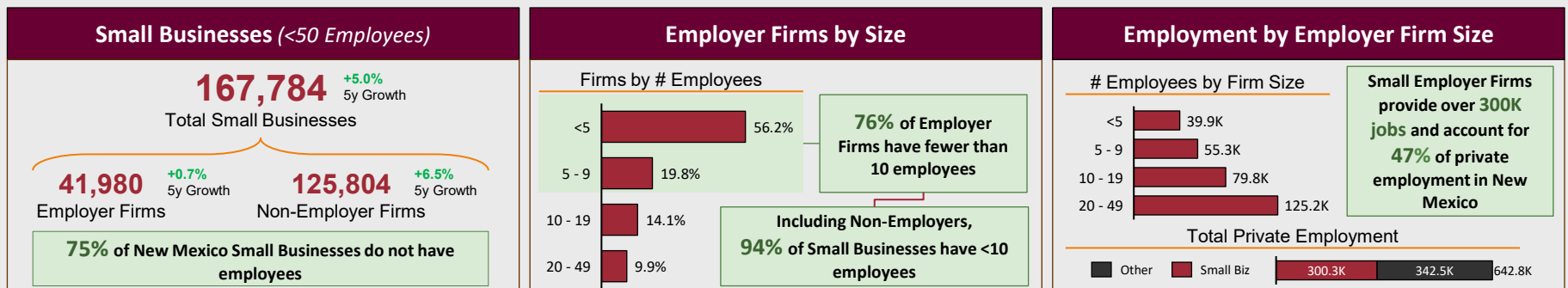


5

- ◆ Congress recently reauthorized and expanded SSBCI and provided ~\$10 billion to state small business financing programs to support small businesses and entrepreneurship, with a focus on socially and economically disadvantaged individuals (SEDI) and Very Small Businesses (VSBs)
  - SEDI businesses are located in distressed communities (as defined by the Dept. of Treasury) or owned by individuals with historically diminished access to credit
  - Very Small Businesses are defined as businesses with fewer than 10 employees
- ◆ In the fall of 2022 NMEDD received an award of up to \$74 million with funding to be disbursed in three equal tranches of ~\$22 million over ten years. The initial award provides for two uses:
  - \$ 9 million to CAP (collateral support) – administered by NMEDD
  - \$ 65 million to (equity/venture capital funds) – administered by NMFA
  - The total award amount includes ~\$6 million of SEDI incentive which is granted if New Mexico deploys at least 57% to SEDI-owned small businesses
- ◆ In August 2023 Dept. of Treasury approved NMFA to help NMEDD administer SSBCI. NMEDD and NMFA are preparing an application to reallocate a portion of the VC funding. Local lending institutions including banks, credit unions and CDFIs (community development financial institutions) are being consulted in how to best meet the capital needs of SEDI-owned businesses

# Key Findings: New Mexico Small Business Snapshot

- ◆ NMFA commissioned Next Street to research New Mexico small businesses and their funding needs to help inform how the NMFA Venture Capital Program and SSBCI funding could be best utilized in New Mexico.
  - There are **167,784 New Mexico small businesses with fewer than 50 employees**; 75% of these New Mexico small businesses do not have employees
  - **76% of employer small businesses have fewer than 10 employees and account for 47% of private employment in New Mexico**
  - **42% of employer small businesses are located in rural communities**
  - **Minority-owned businesses are significantly underrepresented in small business ownership statewide**

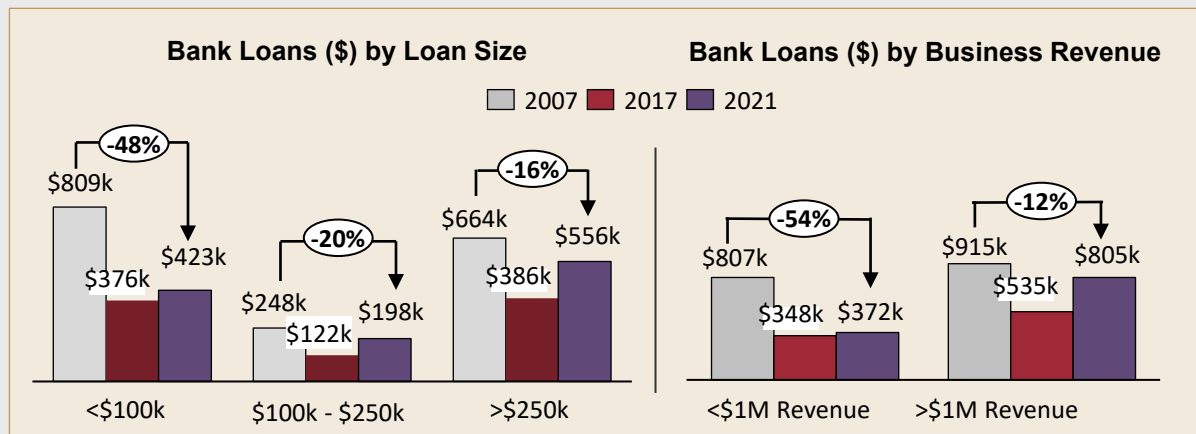


Source: Research commissioned by NMFA in 2023 conducted by Next Street

# Key Findings: New Mexico Small Business Funding

7

- ◆ Bank and SBA lending make up most capital provided to small businesses in New Mexico
- ◆ Business lending rates by FDIC insured banks in 2021 were 54% below what they were in 2007, resulting in at least \$500 million less small business funding provided statewide annually
- ◆ Credit tightening is disproportionately felt by small businesses, and those in less wealthy areas:
  - More than half the decrease over the last 15 years were in loans <\$100,000
  - By 2021 banks were deploying more capital via loans of more than \$250,000 than via loans of less than \$100,000
  - Businesses with less than \$1 million in annual revenue saw more than half of bank funding disappear, while those with over \$1 million in revenue experienced a 12% decrease

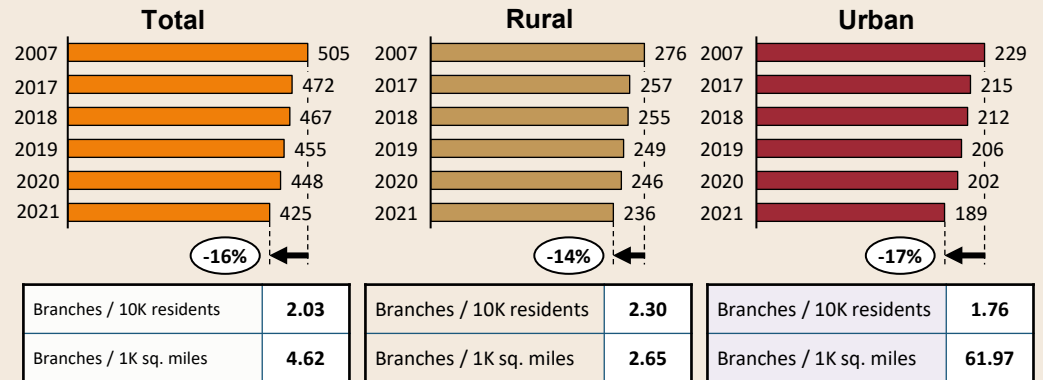


Source: Research commissioned by NMFA in 2023 conducted by Next Street

# Key Findings: New Mexico Small Business Funding

- ◆ The number of bank branches in NM has shrunk at a rate much lower than small business lending decreases.
- ◆ New Mexico benefits from slightly higher Credit Union presence than national averages, and a higher-than-average CDFI presence.
- ◆ Due to much smaller average transaction sizes and a focus on microlending, total CDFI capital deployed per capita is 45% lower than national averages.
- ◆ Next Street focus groups found Businesses struggle with finding **Right Size Financing** -- loans larger than CDFIs typically provide and smaller than banks typically make. As a result, business owners resort to personal savings, personal debt, or predatory lenders.

Number of Bank Branches (2007, 2017-2021)



Credit Unions

	NM	U.S.	Δ
# of Credit Unions	40	4,686	
Per 100k Capita	1.89	1.47	+29%
Credit Union Assets	\$17.6B	\$2.2T	
Per Capita	\$8.3K	\$7.0K	+20%
Credit Union Members	1.1M	137.7M	
% of Pop	50.5%	43.2%	+17%

CDFIs



















	NM	U.S.	Δ
# of CDFIs	17	1,264	
Per 1M Capita	8.03	3.78	+113%
2021 Business Loans (#)	1.2K	126.8K	
Per 10K Capita	5.72	3.79	+51%
2021 Business Lending (\$)	\$29.6M	\$8.4B	
Per Capita	\$14.0K	\$25.2K	-45%

Source: Research commissioned by NMFA in 2023 conducted by Next Street



# Key Findings: Small Business Funding Needs

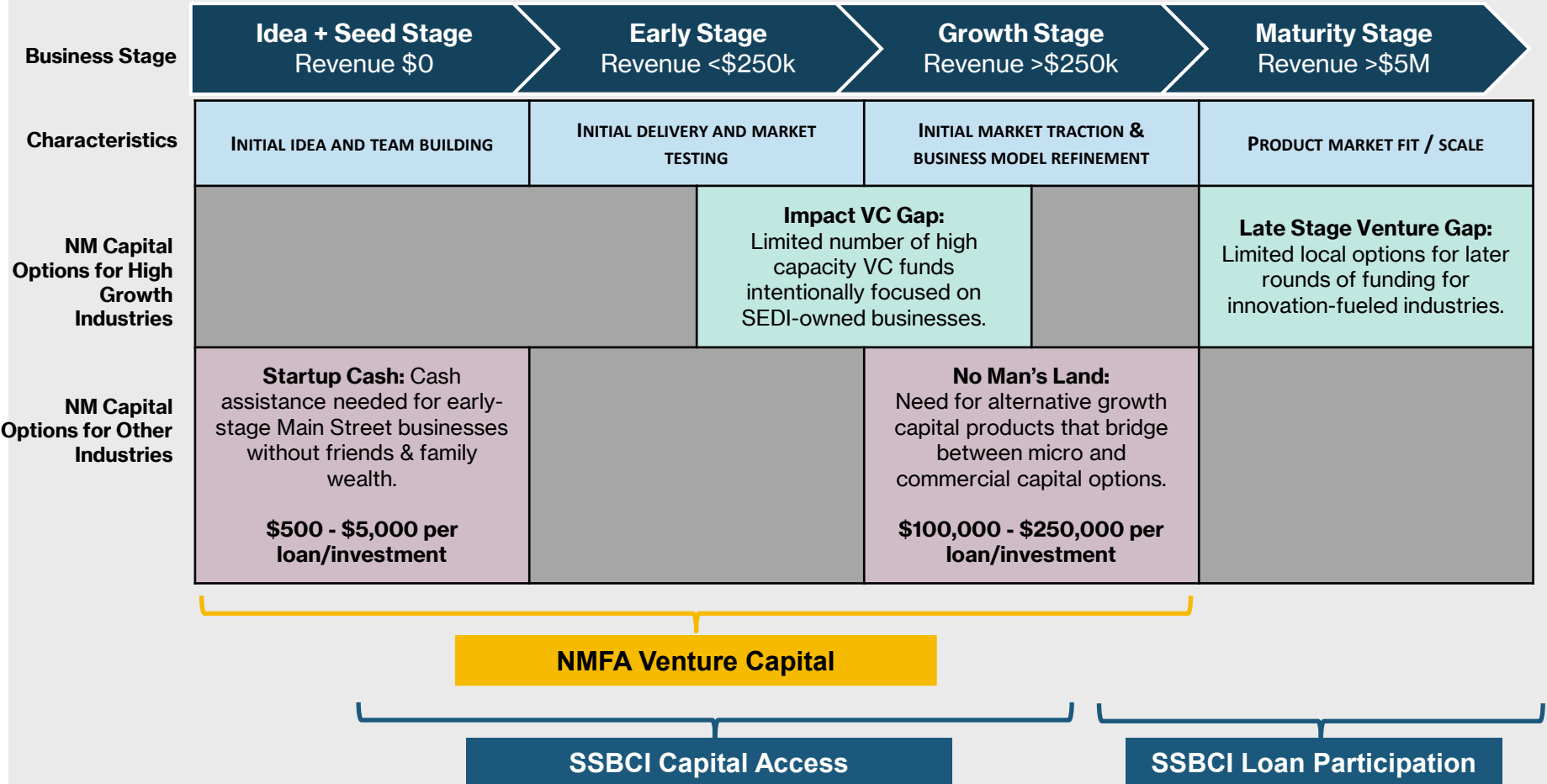
9

Business Stage	Idea + Seed Stage Revenue \$0	Early Stage Revenue <\$250k	Growth Stage Revenue >\$250k	Maturity Stage Revenue >\$5M	
Characteristics	INITIAL IDEA AND TEAM BUILDING	INITIAL DELIVERY AND MARKET TESTING	INITIAL MARKET TRACTION & BUSINESS MODEL REFINEMENT	PRODUCT MARKET FIT / SCALE	
NM Capital Options for High Growth Industries	   		<p><b>Impact VC Gap:</b> Limited number of high capacity VC funds intentionally focused on SEDI-owned businesses</p>	   	<p><b>Late Stage Venture Gap:</b> Limited local options for later rounds of funding for innovation-fueled industries</p>
NM Capital Options for Other Industries	<p><b>Startup Cash:</b> Cash assistance needed for early-stage Main Street businesses without friends &amp; family wealth.</p> <p><b>\$500 - \$5,000 per loan/investment</b></p>	    	<p><b>No Man's Land:</b> Need for alternative growth capital products that bridge between micro and commercial capital options.</p> <p><b>\$100,000 - \$250,000 per loan/investment</b></p>	   	
		<p><b>Restorative Capital Gap:</b> Limited capital products across the spectrum focused on rural and Native communities due to high transaction costs.</p> <p><b>Full Range of Loan/Investment Sizes</b></p>			

# NMFA New Program Opportunities



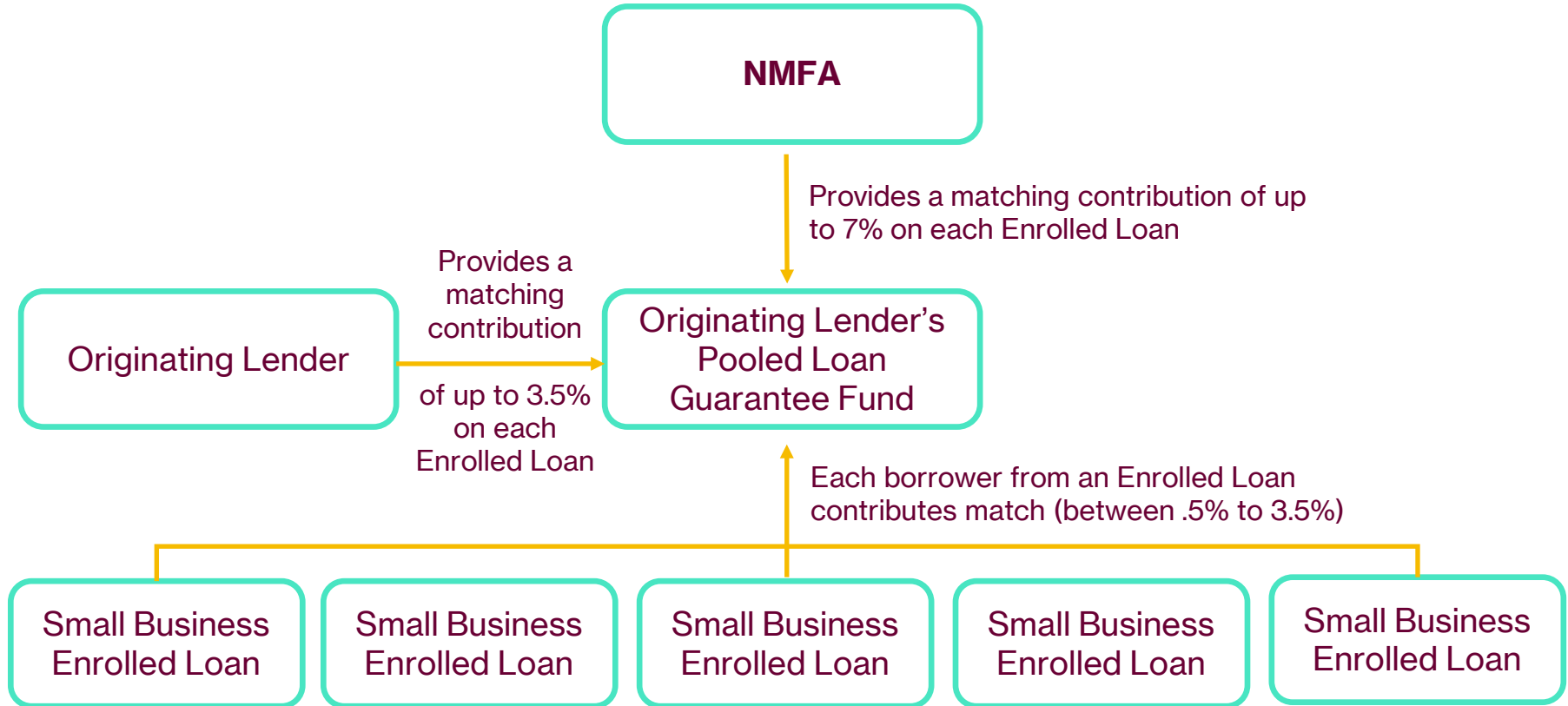
10



# NMFA New Program Parameters



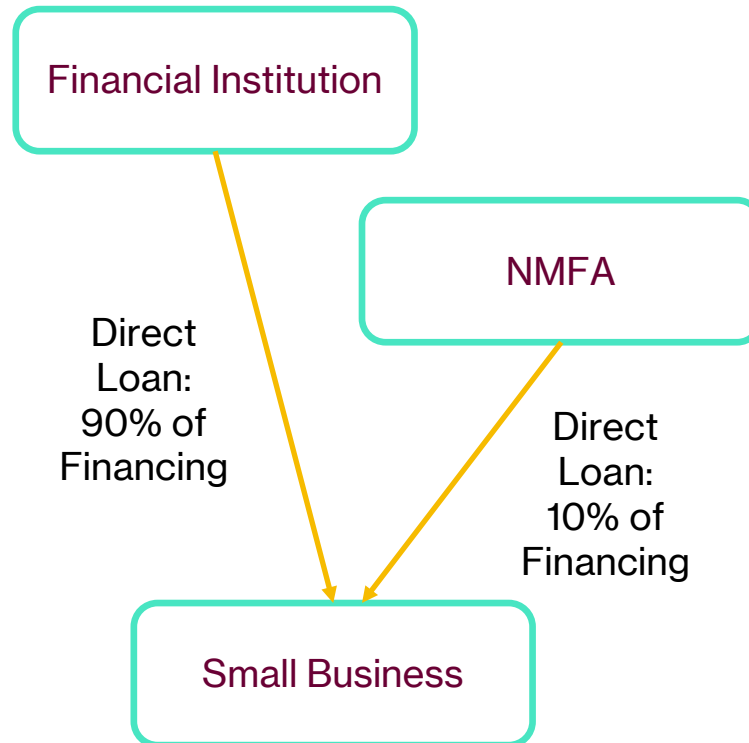
	NMFA Venture Capital	SSBCI Capital Access	SSBCI Loan Participation
<b>Target capital providers</b>	Venture private equity funds	CDFIs, credit unions, banks	Banks, credit unions, CDFIs (direct co-lending )
<b>Target enterprises</b>	Early-stage businesses 1 to 50 employees	For and non-profit with < 100 employees	For and non-profit with < 500 employees
<b>Transaction sizes</b>	\$50,000 to \$2,000,000	\$10,000 to \$1,500,000	\$7,500,000
<b>Participation percentage</b>	Up to 60%	7%	10-40%
<b>Product types</b>	Equity or debt investment	Line of credit, term loans	Line of credit, term loans
<b>Typical term</b>	4 to 12 years	1 to 7 years	1 to 25 years
<b>Use of proceeds</b>	Start-up, expansion, business development	Buildings (purchase, construction & renovation), equipment, working capital	



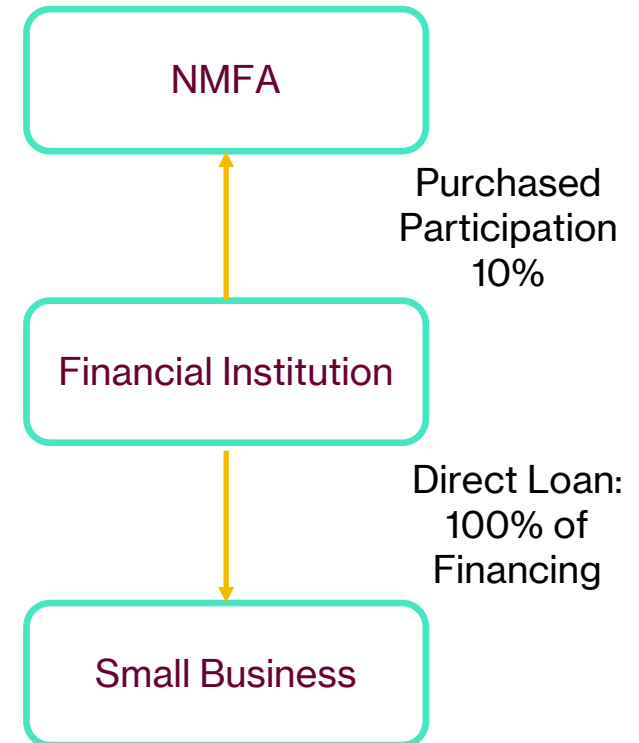
**Structure Provides Additional Incentives to Make Certain Loans:** Each approved Originating Lender will hold and grow its own Pooled Loan Guarantee Fund that will be available to cover losses from any Enrolled Loan.

**Business Friendly Process:** NMFA approves each Originating Lender (Bank, Credit Union or CDFI) and then ensures each enrolled loan meets the program guidelines.

## Co-Lending Participation



## Purchased Participation



NMFA participation can occur at either shared collateral lien (“pari passu”) with the financial institution (thereby sharing in the risk) or be subordinate to the financial institution (thereby increasing the amount that can be loaned to the client)

- ◆ NMFA Board of Directors and NMFA Oversight Committee will consider Rules necessary to implement programming
  - New SSBCI Capital Access Program Rules
  - Amended and Restated Loan Participation Rules
  - Amended and Restated Direct Lending Rules
- ◆ Pursuant to SWEDFA, Rules must be approved for before NMFA and NMEDD may apply to the Department of Treasury to amend the SSBCI Allocation Agreement
- ◆ NMFA and NMEDD must provide Treasury with verification that New Mexico will efficiently utilize the funds to support SEDIs and VSBs while meeting the overall 10:1 leverage requirement
  - Leverage Model will be developed to show that New Mexico is better served using the approved funds for debt instead of equity
- ◆ Once approved by Treasury, NMFA will develop application systems and outreach materials to ensure lenders, businesses and other stakeholders understand the program prior to opening the applications