

NEW MEXICO  
**FINANCE AUTHORITY**



Presentation to the Investments and  
Pensions Oversight Committee

## **Recovery, New Investment and Lending Programs**

Marquita D. Russel, CEO

September 6, 2022

- ◆ Government instrumentality created in 1992
  - Governed by an 11-member Board of Directors
  - Overseen by the NMFA Oversight Committee
  - Staffed with 60 diverse financial professionals
  
- ◆ Broad-based finance agency
  - Partnered with nine departments and four (non-NMFA) Boards
  - Authorized to operate 23 programs through more than 10 Acts
  - New Mexico Finance Authority Act (Section 6-21-2):
    - Purpose: “...to coordinate the planning and financing of state and local public projects ... and to improve cooperation among the executive and legislative branches of state government and local governments in financing 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...”

- ◆ **The Opportunity Enterprise Act** -- 2022 HB 7/a, Sponsored by Representatives Meredith A. Dixon, Brian Egolf, Linda Serrato, and Javier Martinez
- ◆ Establishes the Opportunity Enterprise Review Board to:
  - ❑ Collaborate with local municipalities and local communities to facilitate opportunity enterprise projects
  - ❑ Establish economic development goals for the state in coordination with NMEDD
  - ❑ Recommend potential enterprise projects for financing
- ◆ Creates the Opportunity Enterprise Revolving Fund in NMFA which received a \$70 million appropriation during the 2022 legislative session (re-appropriated from 2021 LEDA Recovery Grant Fund)

# Opportunity Enterprise Review Board



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## Twelve Members

### ◆ Five Ex-Officio Members

- ❑ Alicia Keyes, Secretary of Economic Development
- ❑ Deborah Romero, Secretary of the Department of Finance and Administration
- ❑ John A. Garcia, Secretary of General Services Department
- ❑ Tim Eichenberg, NM State Treasurer
- ❑ Brian Colón, NM State Auditor

### ◆ One Member appointed by Council of Government Organization

- ❑ Priscilla Lucero, Executive Director of the SWNMCOG

# Opportunity Enterprise Review Board



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- ◆ Six public members appointed by the NM legislative council to six-year terms, with initial terms staggered.

□ Brian Condit	6/30/2024
□ Victor Mendoza	6/30/2024
□ Joe Farr	6/30/2026
□ Jennifer Garcia Kozlowski	6/30/2026
□ Liana Sanchez	6/30/2028
□ Vacant	6/30/2028

## **Public members must have experience in:**

- Banking or finance industry
- Commercial or industrial credit
- Private equity, venture capital or mutual fund investments
- Commercial real estate development
- Engineering, constructions or construction management
- Organized labor
- Urban planning
- Environmentally sustainable construction and development

# Powers & Duties of OE Review Board

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- ◆ Meets at least quarterly
- ◆ Adopts rules that carry-out provisions of the act
  - Recommends procedures for applying and qualifying for enterprise assistance
  - Determines how to select and prioritize applications for enterprise assistance
  - Makes recommendations to NMFA of potential enterprise development projects
  - Determines whether use of enterprise assistance is a prudent expenditure of public funds
- ◆ Provides safeguards to protect public money and other public resources
- ◆ Receives executed contracts for enterprise assistance
- ◆ Reports to the Legislature by each October 1st

# Key Definition: Eligible Partners

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## Opportunity Enterprise Partner

- ◆ A private business entity that the NMFA determines is or will be engaged in an enterprise that creates or expands economic development opportunities within the state
- ◆ Eligible private business entities:
  - ❑ A domestic corporation
  - ❑ a general partnership
  - ❑ a limited liability company
  - ❑ a limited partnership, a public benefit corporation
  - ❑ a nonprofit entity, or
  - ❑ other private business entity or combination thereof

# Key Definitions: Eligible Projects

## Enterprise Development Project

The purchase, planning, designing, building, surveying, improving, operating, furnishing, equipping or maintaining

- ❑ land
- ❑ building or
- ❑ infrastructure

to create or expand **economic development opportunity** within the state

## Economic Development Opportunity

Advancement of an environmentally sustainable economic development goal of the state as determined by the NMFA, in coordination with the NMEDD, includes

- ❑ creation of jobs
- ❑ provision of needed services and commodities to diverse communities across the state
- ❑ increase of tax and other revenue collections resulting from the enterprise development project

## **Opportunity Enterprise Financing**

- ❑ Financing provided to an OE Partner to construct an OE development project that will be owned by NMFA
- ❑ NMFA may enter into opportunity enterprise leases at fair market value. The OE development project must be used solely to create and expand economic development opportunities

## **Opportunity Enterprise Loan**

- ❑ Loan to OE Partner of between 15 – 30 years on terms established by NMFA
- ❑ Guarantee of a loan made to OE Partner by a federally insured financial institution on terms approved by the OE Review Board

# Roles & Responsibilities



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## NMFA

- ❑ Provides administrative support to the OE Review Board
- ❑ Administers the Opportunity Enterprise Revolving Fund
- ❑ Makes loans or provides guarantees for opportunity development projects or acquires enterprise development projects and enters into opportunity enterprise leases

## NMEDD

- ❑ Provides outreach to local governments and potential partners to solicit projects
- ❑ Evaluates potential projects and make recommendations to OE Review Board regarding suitability of enterprise assistance
- ❑ Facilitates the payment in lieu of taxes in those instances in which the enterprise development project will be owned by NMFA

## Other Conditions

- ◆ Separate from the Opportunity Review Board, NMFA may adopt rules to carry out the provisions of the Act, subject to approval by the NMFA Oversight Committee
- ◆ Prior to providing enterprise assistance, NMFA must determine
  - the proposed enterprise development project or lease will create or expand economic development opportunities within the state
  - other means of financing a proposed enterprise development project are unavailable or insufficient
- ◆ NMFA may prioritize projects located in a nonurban community (municipality with a population of less than 40,000)

# Opportunity Enterprise Review Board



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## ◆ Inaugural Meeting on August 24th:

- ❑ Approved Bylaws that will govern the activities of the OE Board
- ❑ Appointed a Nominating Committee for Officer Positions
- ❑ Created the Standing Committees: Policy and Project Review
- ❑ Heard from local and statewide economic development professionals on needs

## ◆ Future Meetings

- ❑ Establish rules that identify application processes define Opportunity Enterprise Development projects
- ❑ Propose evaluation and prioritization criteria
- ❑ Review proposed application guidelines
- ❑ Formally authorize the initiation of the rulemaking process

## ◆ For more information: [nmfinance.com/opportunity-enterprise-fund/](https://nmfinance.com/opportunity-enterprise-fund/)

- ◆ **The Venture Capital Program Act – 2022 HB 104/a**
  - Sponsored by Representatives Meredith A. Dixon, Linda Serrato, Javier Martinez and Antonio Maestas and Senator Martin Hickey
  - Creates in the NMFA the Venture Capital Program Fund and authorizes the NMFA Board to:
    - make investments in **New Mexico businesses** that enhance economic development objectives of the state and create new job opportunities
    - Investments are made for the purpose of providing capital for start-up, expansion, product or market development, recapitalization or early-stage development. Investments are made as equity or debt through:
      - **Direct Investment**
      - **Venture private equity funds** – an entity that makes, manages or sources potential investments. Has at least one full-time, experienced manager
    - Report annually on investment activity and economic development impact

# New Mexico VC Program Strategies



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- **New Mexico Private Equity Investment Program (NMPEIP)** created in 1993 to invest up to 9% of the Severance Tax Permanent Fund in New Mexico companies. NMPEIP investments are allowed to achieve differential rate, or “below-market” returns, as they should compensate for lower returns through job and industry creation for the state. The Council’s current direction, however, is to prioritize financial returns over economic development aspects of investments.
- In 2016 the SIC initiated the **NM Catalyst Fund** to commit \$20 million in early-stage/seed investments through local Venture Capital Funds.



- New Mexico is receiving approximately **\$76 million through the federal State Small Business Credit Initiative (SSBCI) over the next ten years.** EDD will invest the SSBCI funds in multiple venture capital funds.
- *Venture Capital Program Act could fill gaps within the current landscape and look to assist underserved New Mexico business owners. It could help to address significant shortcomings in the state’s ability to assist startup companies to form and grow, resulting in an improved entrepreneurial ecosystem, more jobs, more investment, and more opportunities for New Mexicans to create new careers.*



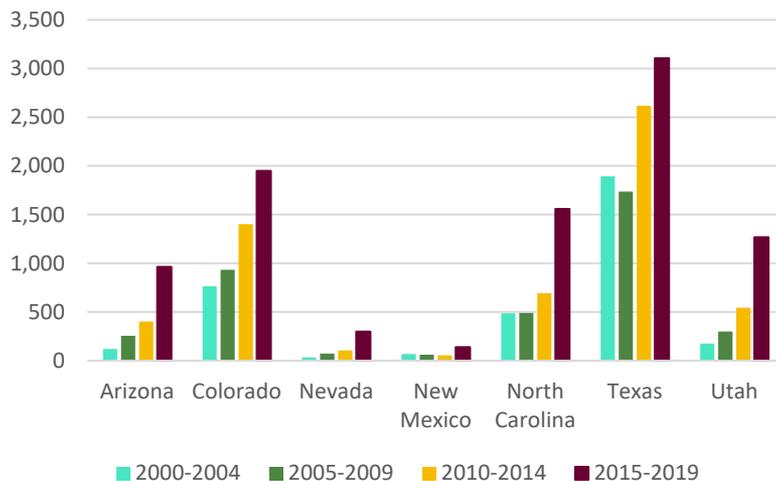
- **HB104 provides a secondary source of state-supported seed capital for emerging New Mexico businesses.**
- While structured very similar to the SIC-administered NMPEIP, the Venture Capital Program Fund’s intent appears to be more focused on impact rather than income generation. Placing this secondary program at NMFA allows for businesses not currently served by the NMPEIP to access early seed equity capital.

# Venture Capital Program Act

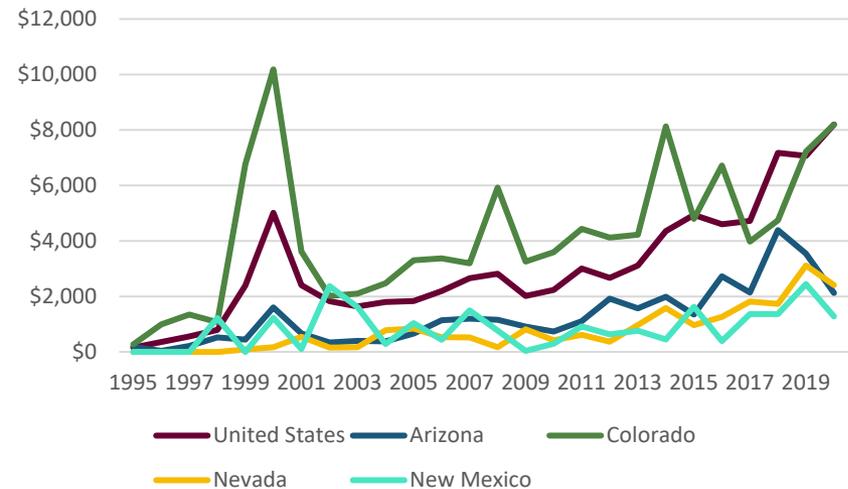
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- ◆ Lack of available venture capital in New Mexico that allows the state to retain and attract early-stage businesses
- ◆ Significant gap in venture capital available to local businesses when compared nationally or to peer states

5-year Average Venture Capital Disbursed



Venture Capital Disbursed per \$1 million GDP



# Venture Capital Program Act



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## ◆ Investment Parameters:

- Benefiting companies must be **New Mexico businesses** –
    - principal office/place of business located in New Mexico and
    - majority of full-time employees or 80% of assets located in New Mexico
  - Investments in venture capital private equity funds require match
  - Co-investor requirement for investments in New Mexico businesses
  - Investment in one business or industry cannot to exceed 10% (potential hurdle)
  - Investment cannot exceed 51% ownership
- 
- ◆ NMFA will operate the Venture Capital Program Fund with the assistance of a professional Investment Advisor
    - RFP/Selection of Investment Advisor                      Q1/2 FY2023
    - Program Governance defined                                      Q2    FY2023
    - Applications open    Q3/4 FY2023
  - ◆ Potential hurdles in implementation: No IPRA protections for applicants

# Economic Stimulus, Recovery & Relief Funds



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- ◆ Between August 2020 - June 2022, NMFA awarded **9,531 businesses** more than **\$344 million** through **2,368 loans** and **8,638 grants**.
  - Small Business Recovery Loan Fund (SB 3, 2020 1<sup>st</sup> SS & 2021 Regular Session)
    - 2,347 businesses received 2,368 loans totaling \$160.2 million
    - Funded from State Severance Tax Permanent Fund
  - Small Business CARES Relief Grants (HB 1, 2020 2nd Special Session)
    - 6,733 businesses received 6,737 grants totaling \$96.9 million
    - Funded from Federal CARES Grant Funds
  - NM LEDA Business Recovery Grant Fund (HB 11, 2021 Session)
    - 1,871 businesses were awarded 1,901 grants totaling \$86.9 million
    - Funded from State General Fund
- ◆ 1,420 businesses participated in more than one program
- ◆ The three recovery programs generated more than 21,000 applications

	Small Business Recovery Loans				Grants			
	SBRLF 1.0		SBRLF 2.0		CARES Relief Grant		LEDA Recovery Grant	
Enabling Legislation	2020 1st Special Session (SB 3)		2021 Regular Session (SB 3)		2020 2nd Special Session (HB 1)		2021 Regular Session (HB 11)	
Capitalization Source	Severance Tax Permanent Fund		Severance Tax Permanent Fund		Federal CARES Act Funds		General Fund	
Capitalization Amount	Up to \$400 million		Up to \$500 million		\$100 million		\$200 million	
Application Period	August 7, 2020 - December 31, 2020		May 4, 2021 - December 31, 2022		December 7, 2020 - December 18, 2020		May 11, 2021 - December 31, 2021	
Awarded	468	\$ 20,798,128	1,488	\$ 102,741,257	6,737	\$ 96,940,000	1,901	\$ 86,878,050
Refinanced SBRLFs	<u>412</u>	<u>\$ 19,452,109</u>	<u>412</u>	<u>\$ 17,251,142</u>	<u>-</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Total Funded	880	\$ 40,250,237	1,488	\$ 119,992,399	6,737	\$ 96,940,000	1,901	\$ 86,878,050
Declined	<u>1,013</u>	<u>\$ 13,369,984</u>	<u>500</u>	<u>\$ 23,833,718</u>	<u>7,400</u>	<u>\$ 53,667,000</u>	<u>797</u>	<u>\$ 25,334,770</u>
Applications Processed	<u>1,893</u>	<u>\$ 53,620,221</u>	<u>2,400</u>	<u>\$ 143,826,117</u>	<u>14,137</u>	<u>\$ 150,607,000</u>	<u>2,698</u>	<u>\$ 112,212,820</u>
Acceptance Rate	46%		75%		48%		70%	
Rejection Rate	54%		25%		52%		30%	

## Recovery Programs Funding Totals

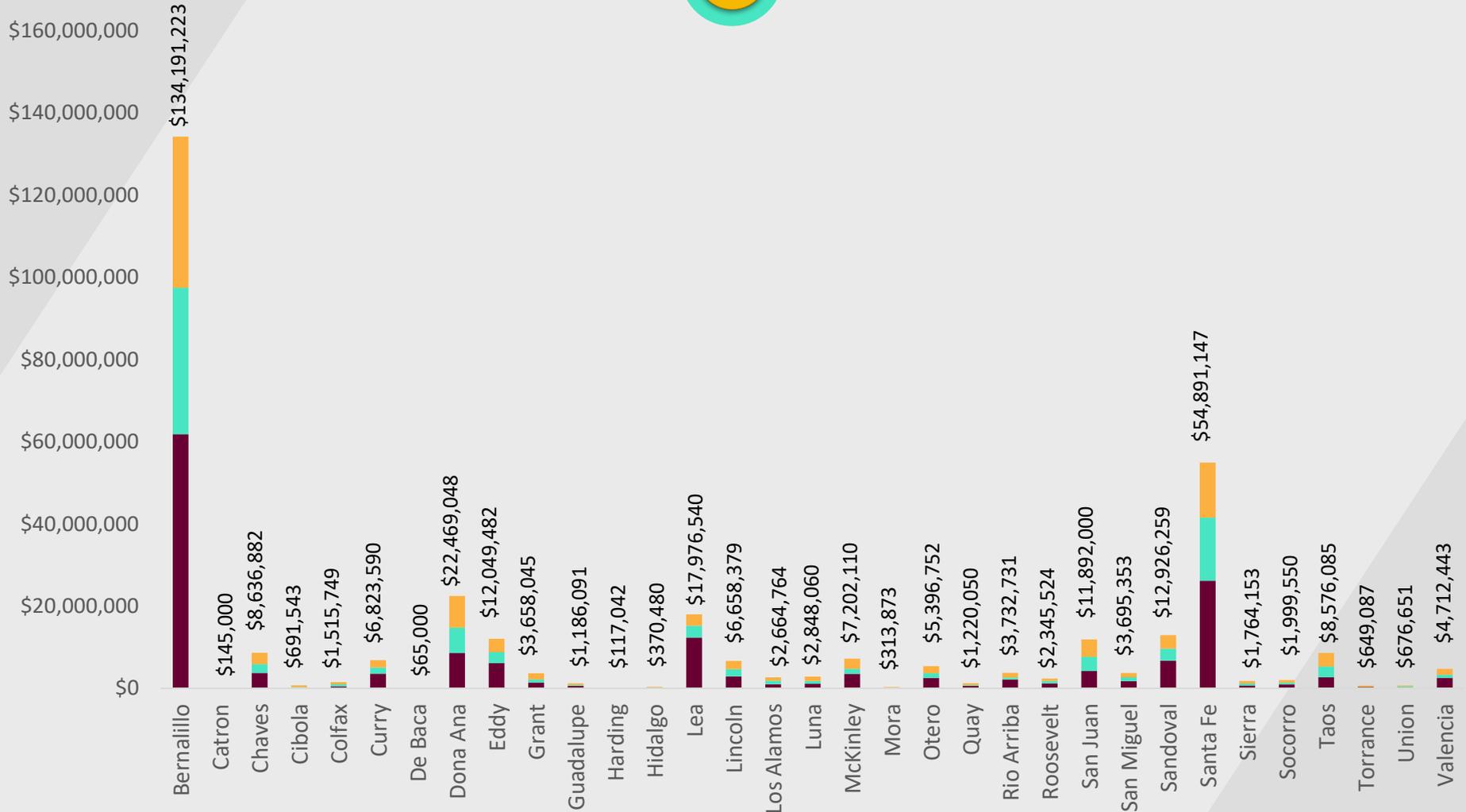
# Recovery Programs



	LOANS		GRANTS	
	Small Business Recovery Loan Fund			
	SBRLF 1.0	SBRLF 2.0*	CARES Relief Grant	LEDA Recovery Grant
Award Determination	2x adjusted monthly expenses	3x adjusted monthly expenses	Employee Base	Job Creation
Award Maximum	\$75,000	\$150,000	\$50,000	\$100,000
Eligible Uses	Operating Funds	Operating Funds	Operating Funds	Rent, Lease or Mortgage
Prioritization Factors	First come, first serve	First come, first serve	Net Revenue Loss	% of revenue loss
NM Residency Requirements	At least 80% NM owned	At least 51% NM Owned	At least 51% NM owned or based in NM with 10 NM FTEs	Business located in NM
Other qualifications	Gross Revenues less than \$5 million	Net Revenues less than \$5 million	Fewer than 100 employees	Fewer than 75 employees per location
Other	Fully unsecured	Loan amounts greater than \$75,000 require personal guarantees	Funds delivered at closing	Awards are post-performance
	6 year terms, first three years interest only; monthly payments thereafter	10 year term, interest accruing beginning in the second year. Interest only in years 2 and 3. Monthly payments thereafter		

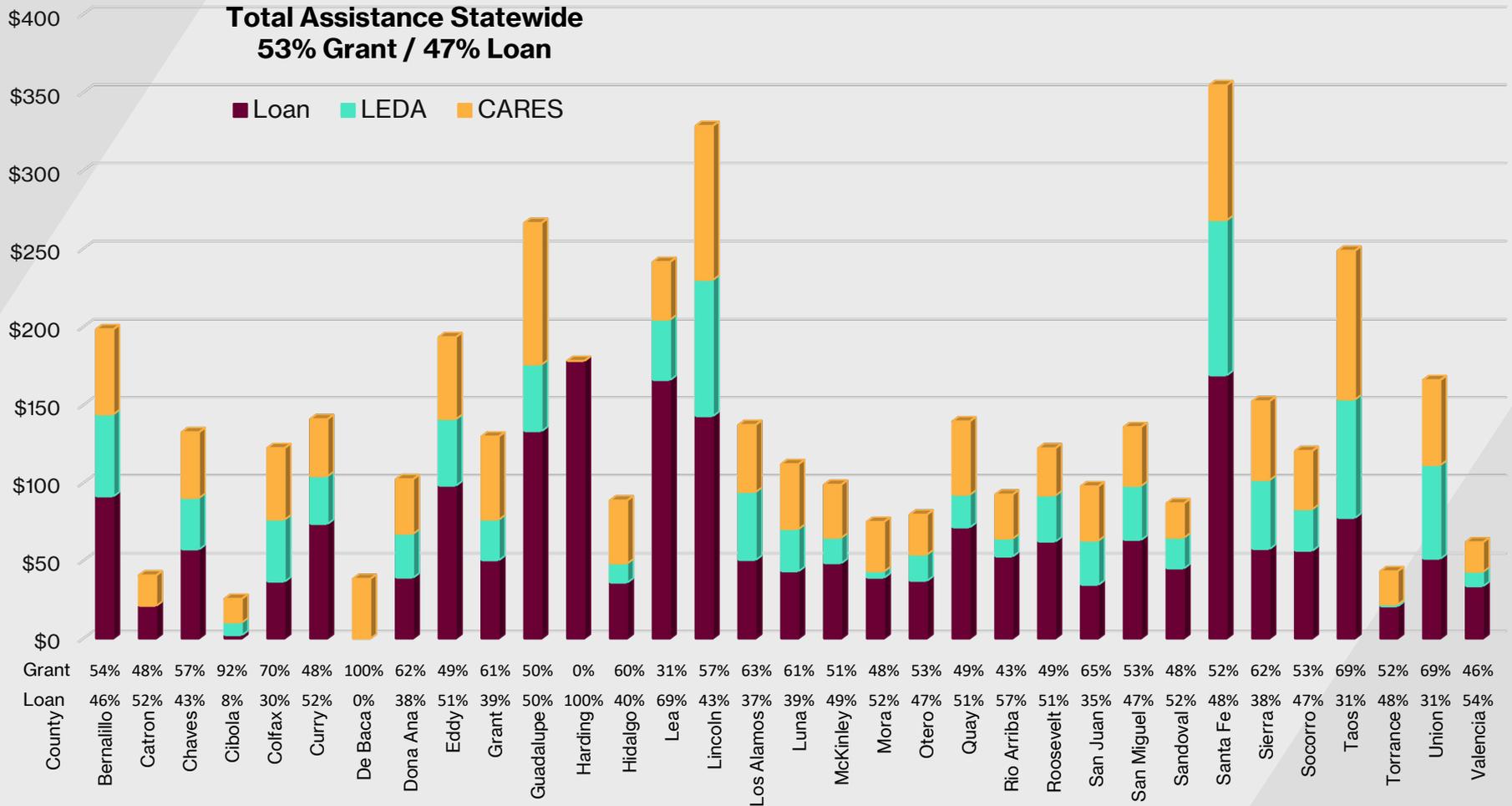
# Total Recovery Funding By County

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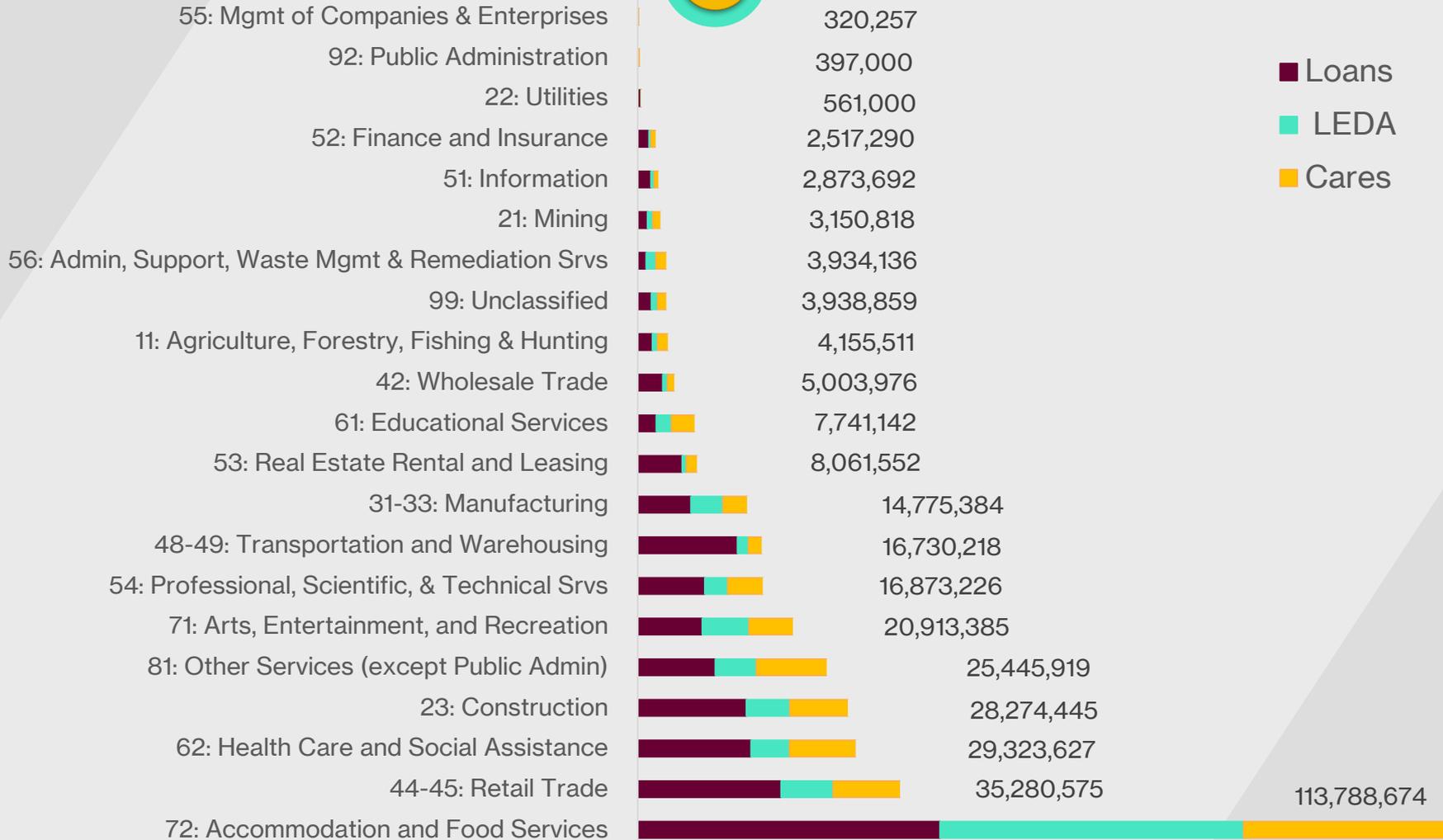
# Total Recovery Funding per Capita

21



# Total Assistance by Industry

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Loans  
LEDA  
Cares

# Business Status Report Results

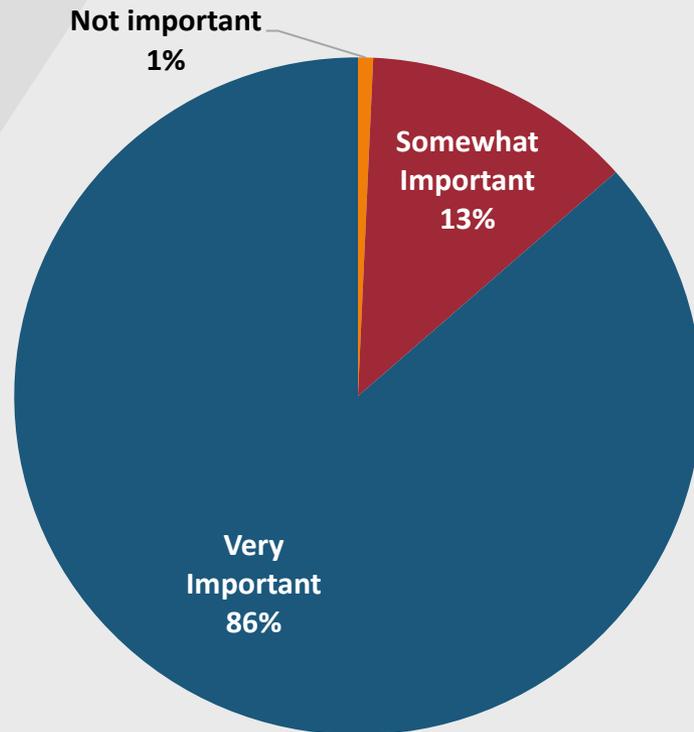
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- ◆ In July 2022, 3,131 LEDA and SBRLF recipients were surveyed
  - The survey was intentionally brief to encourage participation and requested anecdotal information about current conditions
  - The survey asked for the number of employees retained or hired as a result of the recovery assistance
- ◆ The email campaign had a click-through rate of 46%
  - 1,274 or 40.6% of the surveys were submitted. Respondents reported
    - 5,195 employees were hired or retained as a result of LEDA
    - 3,397 employees were hired or retained as a result of SBRL
    - 27 respondents said they were no longer in business

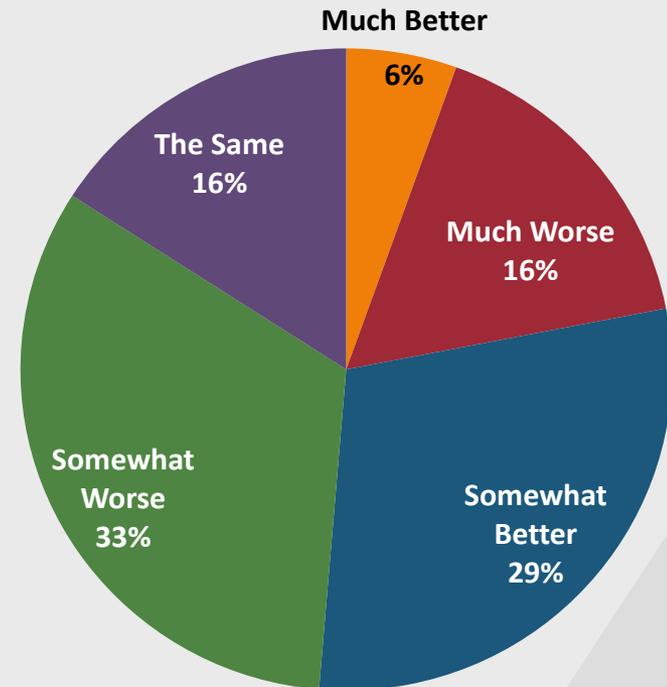
# Business Status Report Results

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Respondents were asked:  
"How important was the financial support to keeping the business open?"



Respondents were asked:  
"How does business activity today compare to business activity just prior to the pandemic?"



- ◆ 468 SBRLF 1.0 loans (those not refinanced with a 2.0 loan) are required to make annual interest-only payments. As of June 30, 2022:
  - 17% delinquency rate
    - 80 loans with principal totaling \$2.4 million are past due with \$47,569 in interest payments
    - Current projected default rate is approximately 10% but is expected to rise as SBRLF 2.0 payments start repayment
  - NMFA uses a third-party credit monitoring service to automatically receive reported bankruptcy on existing LEDA grant and SBRL loan recipients. None have been reported to date.
- ◆ Portions of SBRLF 2.0 loans greater than \$75,000 are guaranteed
  - 796 SBRLF loans contain partial guarantees totaling \$46,331,160
  - 478 of the loans have guarantees of \$75,000

# Economic Development Revolving Fund

- ◆ The Economic Development Revolving Fund (“EDRF”) is the Fund created under SWEDFA from which NMFA makes loans. EDRF is segregated into four sub-accounts:
  - **Smart Money** is a State funded loan participation program
  - **Collateral Support Participation** was a Federally funded loan participation program
  - **Essential Services Working Capital Program** provided direct working capital loans to essential service providers
  - **Cannabis Microbusiness Program (CMP)** provides start up capital to licensed cannabis micro-businesses
- ◆ EDRF is one of six funds NMFA is authorized to operate for community and economic development purposes

# Economic Development Revolving Fund



Program		Original Portfolio		Outstanding Portfolio			
Child Care Revolving Fund	1	\$	50,000	0%	0	\$	-
Primary Care	19	\$	11,524,659	2%	4	\$	641,463
Behavioral Health	6	\$	3,615,000	2%	4	\$	1,842,641
Essential Services*	16	\$	5,584,850	2%	11	\$	2,229,776
CMP*	5	\$	935,000	1%	5	\$	935,000
Smart Money*	6	\$	7,621,593	1%	2	\$	1,857,901
Collateral Support Program*	16	\$	8,336,120	2%	4	\$	1,996,897
New Market Tax Credits	28	\$	306,000,000	86%	16	\$	154,654,000
NMTC Small Loan Pool	8	\$	10,760,000	6%	8	\$	10,760,000
<b>Total</b>	<b>105</b>	<b>\$</b>	<b>354,427,222</b>	<b>100%</b>	<b>54</b>	<b>\$</b>	<b>174,917,678</b>

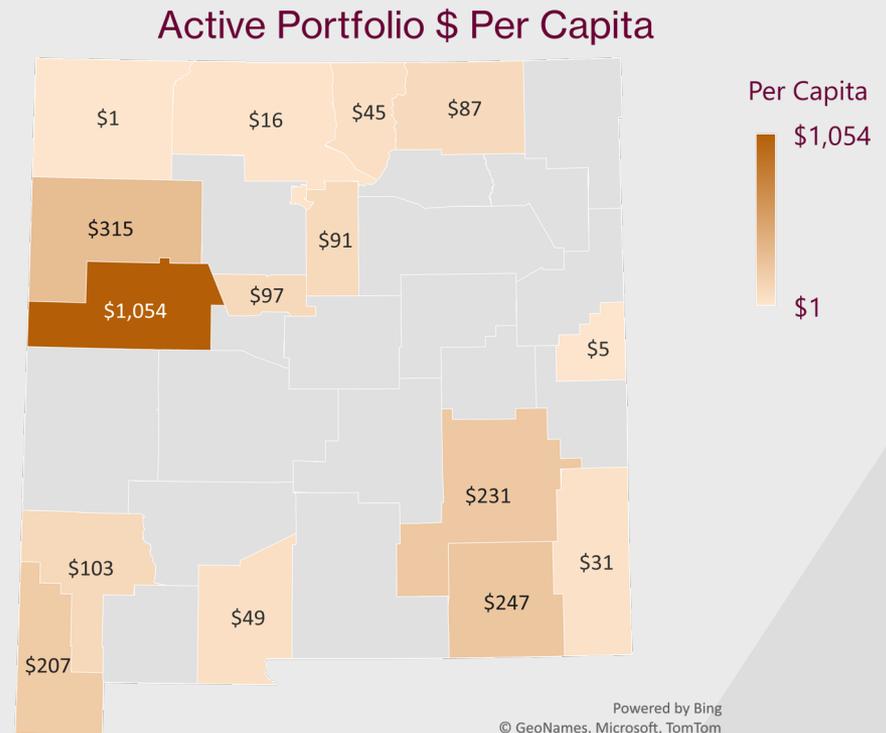
- Programs operated out of the Economic Development Revolving Fund
- Balances as of 08.01.2022
- All borrowers current on debt service payments

# Active Projects by County

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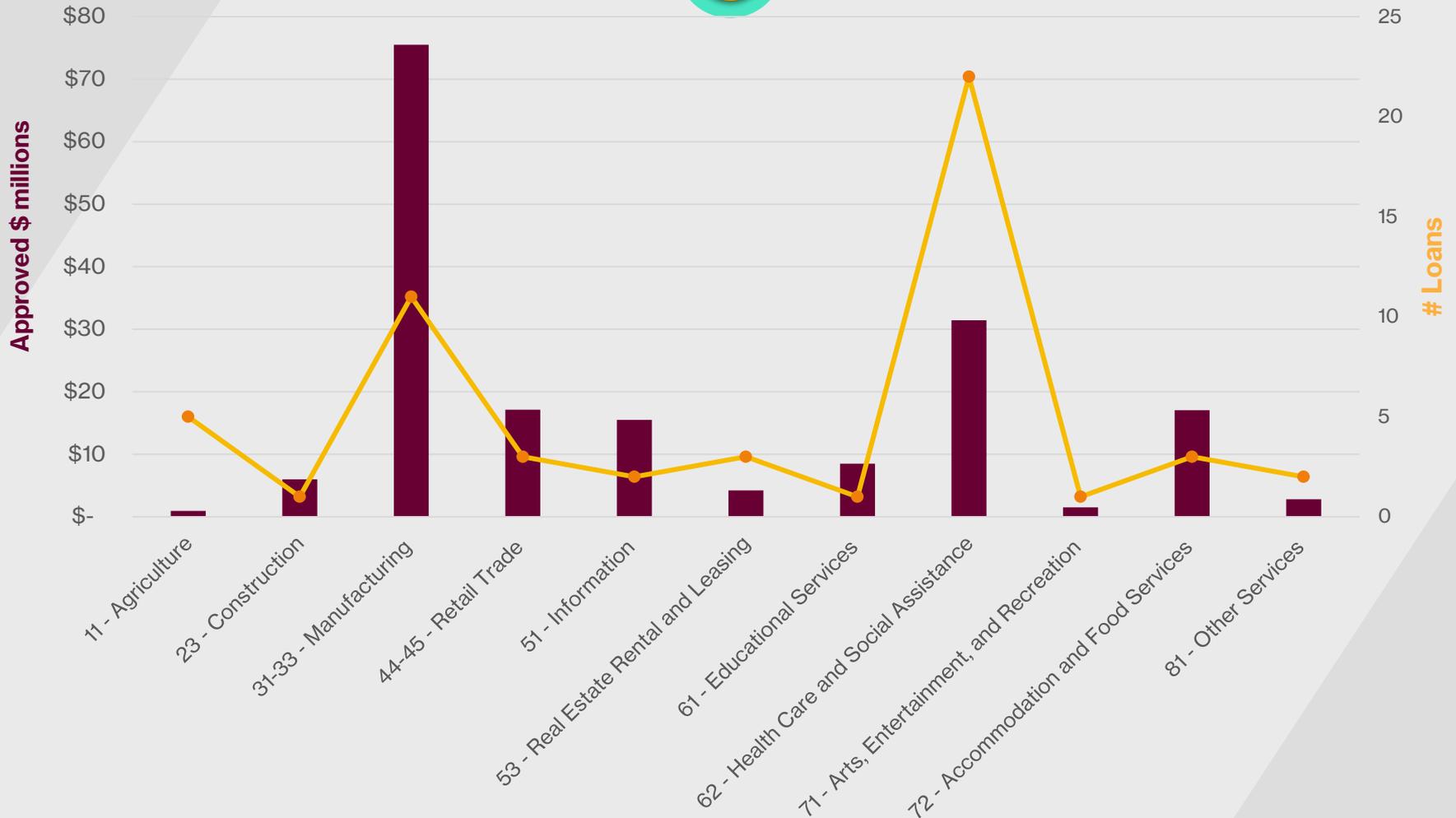
County	# Projects	\$ Approved
Bernalillo	19	\$66,392,681
Cibola	4	\$27,827,000
McKinley	2	\$22,000,000
Chaves	1	\$15,000,000
Eddy	1	\$15,000,000
Santa Fe	6	\$13,799,000
Dona Ana	9	\$10,811,431
Grant*	2	\$2,692,500
Lea*	1	\$2,327,000
Taos	2	\$1,465,000
Colfax	1	\$1,000,000
Hidalgo	2	\$850,000
Rio Arriba	1	\$600,000
Los Alamos	2	\$369,000
Curry	1	\$250,000
San Juan	1	\$ 150,000

\*One project building health clinics in both Grant and Lea counties is split between the two counties



# Active Projects by Industry

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# Program Constraints



- ❑ Limited Capital.
- ❑ Temporary provision enacted in 2011 that allows lending from the Economic Development Revolving Fund without prior legislative authorization sunsets June 30, 2023.
- ❑ Primary Care and Behavioral Health Capital Funds need the capacity to fund working capital. Currently limited to building and equipment only.

Program	Source of Capital	Original Appropriation	Funds Reverted for Solvency	Net Capitalization	Funds Available to Lend
Child Care Revolving Fund	Federal Funds	\$ 250,000	\$ (200,000)	\$ 50,000	\$ -
Primary Care	General Fund	\$ 9,000,000	\$ (9,810,000)	\$ (810,000)	\$ 920,000
Behavioral Health	Cigarette Tax Bonds	\$ 2,500,000	\$ -	\$ 2,500,000	\$ 245,500
Essential Services*	NMFA Operating Funds	\$ 5,600,000	\$ -	\$ 5,600,000	\$ -
CMP*	NMFA Operating Funds	\$ 5,000,000	\$ -	\$ 5,000,000	\$ 4,065,000
Smart Money*	General Fund	\$ 12,000,000	\$ (6,900,000)	\$ 5,100,000	\$ 845,000
Collateral Support Program*	Federal Funds	\$ 8,168,350	\$ -	\$ 8,168,350	\$ -
New Market Tax Credits	Federal Funds	\$ 306,000,000	\$ -	\$ 306,000,000	\$ -
NMTC Small Loan Pool	Federal Funds	\$ 15,000,000	\$ -	\$ -	\$ -
<b>Total</b>	<b>TOTAL</b>	<b>\$ 363,518,350</b>	<b>\$(16,910,000)</b>	<b>\$ 331,608,350</b>	<b>\$ 6,075,500</b>

\*Operated from the Economic Development Revolving Fund