



NEW MEXICO  
FINANCE AUTHORITY

*Presentation to the  
New Mexico Finance Authority  
Legislative Oversight Committee*

*Update on the  
New Markets Tax Credit Program*

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Finance New Mexico, LLC



## What Are New Markets Tax Credits?

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- ◆ Created in 2000, the NMTC program is a tax credit focused on economic development in low-income communities nationwide
- ◆ The program is administered through the Community Development Financial Institution (“CDFI”) Fund, an arm of Treasury in an annual competitive process. Entities that compete must first become certified Community Development Entities (CDEs).
- ◆ Award winning CDEs can invest the NMTC credit into qualifying projects, from business creation/expansion to community facilities to commercial real estate.
- ◆ Credits cannot be funded into projects that are considered “sin” businesses or projects that have greater than 80% of the annual income streaming from residential rental.
- ◆ Allocation is directed to areas considered “highly distressed.”

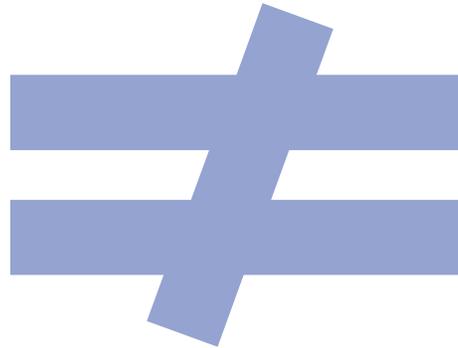


# Critical Distinction

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## Allocation of Tax Credits



**Cash**





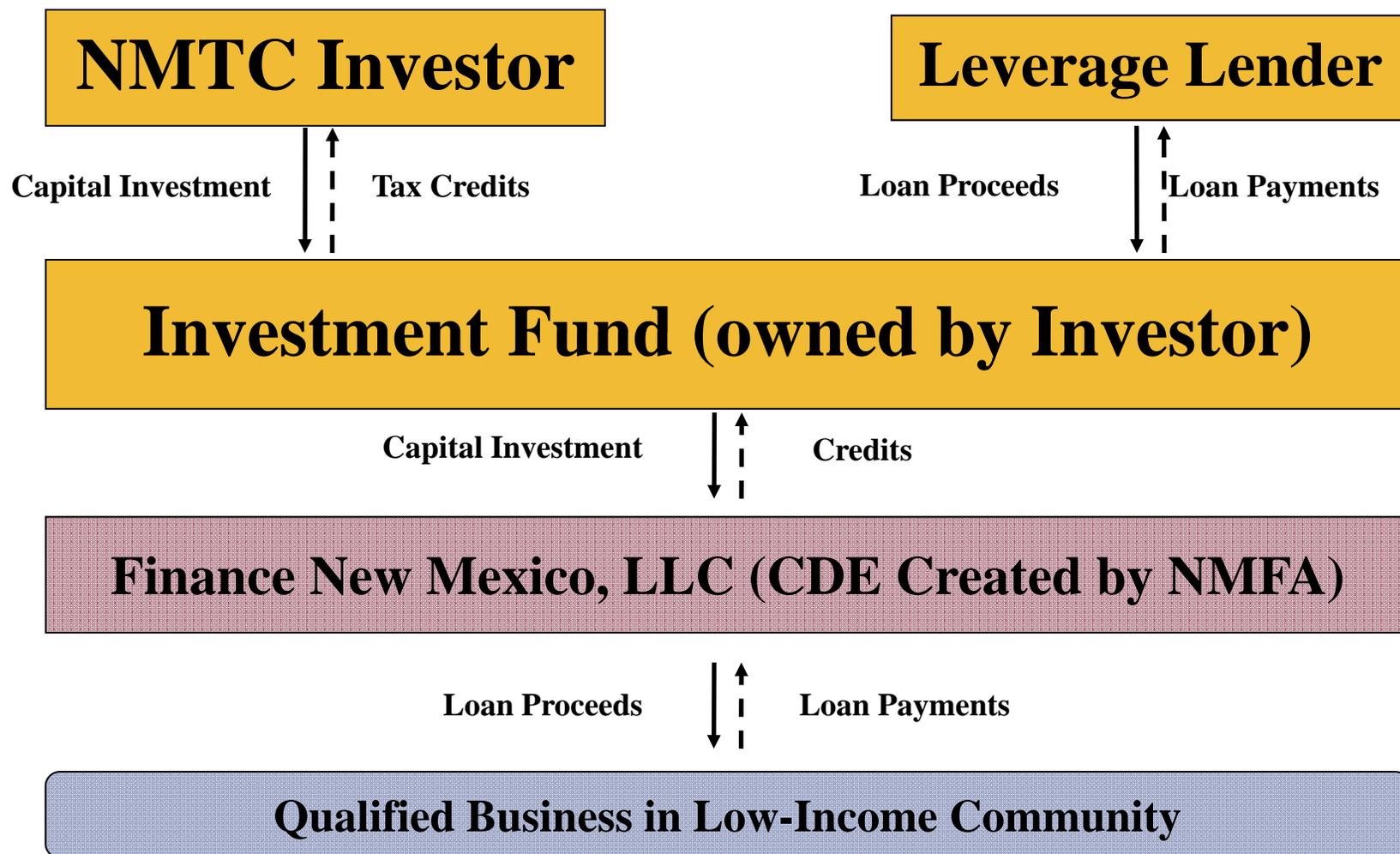
## Why NMTCs?

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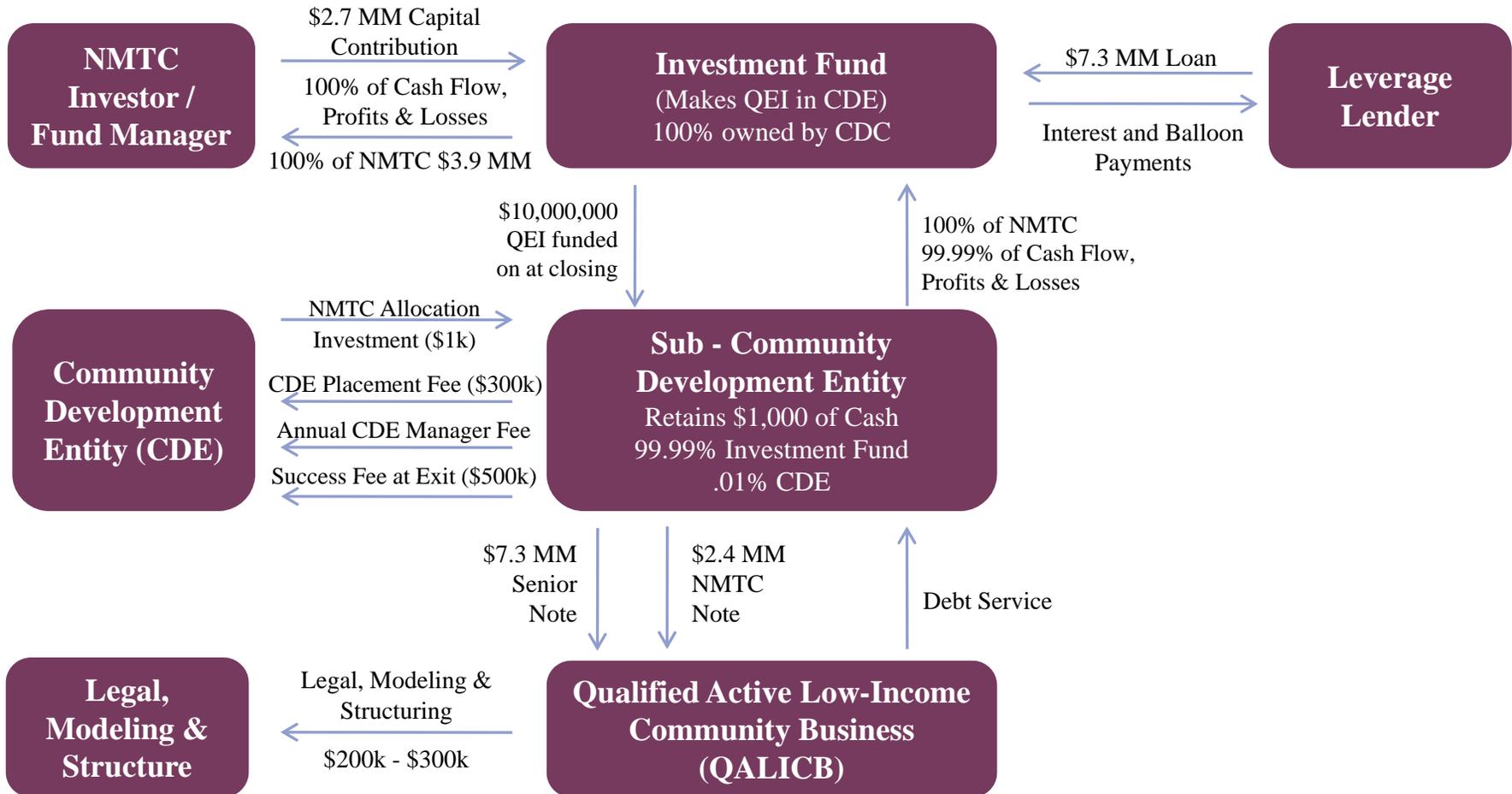
- ◆ An allocation of credit to a project provides for a 39 cent to the dollar of investment tax credit. This is taken over 7 years, 5% in each of the first 3 years and 6% in the remaining years.
- ◆ Tax credits are monetized to bring additional capital to the project to fund business expansions or certain debt refinancings
- ◆ Flexible, low cost capital provides the critical final pieces of the financing with longer amortization and higher LTV ratios than traditional debt
- ◆ Conversion of Debt
  - At the end of the 7-year compliance period the debt may be acquired for cents on the dollar depending on the structure of the transaction



# So, How Do NMTCs Work?



# Sample NMTC Leveraged Transaction Diagram



Note: Assumes credits purchased at \$0.70 \$1.00 of NMTC received





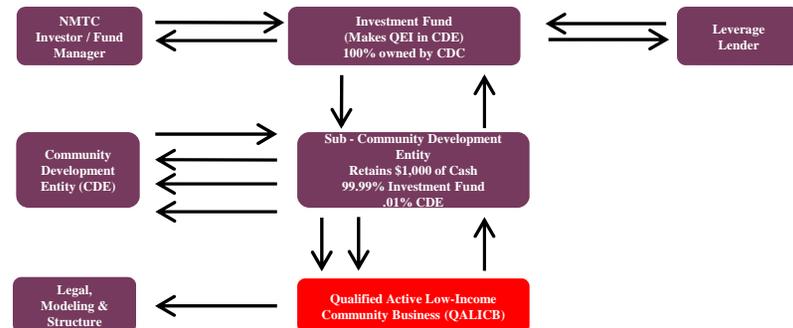
# Basic Borrower Eligibility Requirements

## ◆ Geographic Restrictions

- Business located in a highly distressed Low-Income Community
- Determined by census tract

## ◆ Ineligible activities

- Residential rental property (80% or more of income from residential dwelling units)
- Certain businesses:
  - Race tracks
  - Golf course
  - Gambling facilities
  - Liquor Stores
  - Certain farming businesses
  - Massage business





## Other Requirements

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- ◆ Located in a “highly distressed” census tract, including:
  - Poverty > 30%
  - Median Income < 60% of statewide
  - Unemployment > 1.5 times national average
    - May use two of other distress criteria to meet this test
    - As of 2010 projects in non-metro tracts are consider High Distress
- ◆ Community Impact
  - Tangible community benefit.
  - Part of an existing plan for economic revitalization
  - “But for” test – NMTC fills a real gap that would otherwise not happen
- ◆ Ready to go
  - Leverage lender committed & prepared for NMTC documentation
  - Approvals all in place



## NMTCs In a Nutshell...

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### *From a Borrower's perspective:*

- ❖ NMTC is not a grant program, but a low-cost loan that funds about 20-25% of their investment need (in today's market). Often a substantial amount of the loan is considered convertible at the end
- ❖ An allocation maybe provided in an amount up to the amount of the total project costs (but typically is not) and borrower needs a real source of debt or equity to fund the other 75-80% of the investment for which the applicant is responsible for securing

### *From an NMTC Investor's perspective*

- ❖ Credit to encourage private investment in low-income communities – typically in the Investor's Community Reinvestment Act footprint
- ❖ The 39% tax credit is taken over 7 years equal to 39% of the allocation amount which is purchased using a present value discount factor which provides the yield or return they need





# Finance New Mexico, LLC Overview

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- ◆ 2006 amendments to Statewide Economic Development Finance Act authorized NMFA to create a Community Development Entity (“CDE”) for purposes of participating in the federal New Markets Tax Credit Program
- ◆ May 25, 2006, NMFA Board of Directors approved creation of Finance New Mexico, a limited liability company which results in taxation as a partnership, as allowed by New Markets Tax Credit program
- ◆ New Mexico Finance Authority, as Managing Member of Finance New Mexico, LLC, controls the operation and management of Finance New Mexico and its subsidiary CDEs - even after all membership interests are sold to investors



## NMTC Goals & Objectives

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Create additional, more flexible sources of private capital for businesses in rural and underserved areas of New Mexico

Investment capital from corporate tax-payers used to capitalize new fund after the NMTC program complete

- ◆ Capital received from private investors available to NMFA to capitalize another program outside the constraints of NMTC

More flexible loan structures to address “*but-for*” financings

- ◆ Not a grant program, but flexible debt, with some ability to forgive principal based upon project performance

Deploy 97% of the total credit allocation to eligible businesses in low-income communities with a goal of at least 75% of credit in areas of Higher Distress





# NMTC Economic Development Goals

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**Finance New Mexico's NMTC program sets targets for:**

- ◆ Community impact and support
- ◆ Geographic diversity
- ◆ Filling financing gaps in rural and underserved areas of New Mexico
- ◆ Increased wages and job creation
- ◆ Wealth creation and capital investment
- ◆ Environmentally sustainable outcomes

Policies provide parameters on portfolio concentration, providing a diverse set of communities and industries the opportunity to attract investment by limiting Finance New Mexico's concentration by:

- ◆ **Project Size:** Limits amount of allocation to any one project to 15%
- ◆ **Location:** Generally limits concentration by census tract to 20% (exceptions may be considered on a case-by-case basis).





## Finance New Mexico Business Strategy

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Deploy New Markets Tax Credits to businesses that will create good, sustainable jobs for New Mexico, including key sectors:

- ◆ Aviation
- ◆ Clean Energy
- ◆ Film
- ◆ High Tech
- ◆ Value-Added Agriculture
- ◆ Rural Economic Development

### **NMFA goals contained in Allocation Agreement:**

- ◆ 40% of tax credit allocation to businesses in rural New Mexico and Tribal Lands that create jobs
- ◆ 60% of tax credit allocation:
  - ◆ First to job-creating businesses in urban New Mexico
  - ◆ Then to urban redevelopment projects that revitalize dilapidated areas





# Roles and Responsibilities

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## Finance New Mexico, LLC Advisory Board

- ◆ Reviews and provides input on policies governing the program
- ◆ Determines federal compliance with mission

## Role of New Mexico Economic Development Department

- ◆ Determines projects serve an economic development purpose
- ◆ Serves on Application Review Team which determines Economic Development Priority

## Role of New Mexico Finance Authority Board

- ◆ Governing Body
- ◆ Review and approval of policies & organizational documents
- ◆ Review and approval of projects
- ◆ **Approves all allocations and the specific terms of each deal**

# Relationship of Entities





# Finance New Mexico Advisory Board

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## **Broad geographic, business and community representation**

- ◆ Jay Czar, NM Mortgage Finance Authority, Albuquerque
- ◆ Gus Cordova, Community Management Consultant, Taos
- ◆ Kelly O'Donnell, Ph.D., Business Consultant, Corrales
- ◆ Tom Overstreet, Attorney, Alamogordo
- ◆ Leroy Pacheco, The Loan Fund, Albuquerque
- ◆ Mary Kay Papen, State Senator, Las Cruces
- ◆ Andres Silva, Mayor, Deming
- ◆ Dan Silva, Business Owner, Albuquerque
- ◆ Jerry Walker, NM Independent Community Bankers Assn, Farmington





# Project Selection: Community Benefit

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- ◆ Create additional economic development for the local community
  - Direct creation of permanent jobs
  - Construction jobs
  - Indirect job creation
  - Increased tax base
  - Blight removal
- ◆ Attract and/or retain skilled workforce
- ◆ Bring new goods or services to underserved communities
- ◆ Capital investment to underserved, qualified Low-Income Communities





# Competitive Application Process

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Finance New Mexico solicits applications through a competitive process to ensure businesses have equal access to credits

- ◆ At least a quarterly competitive application rounds that will be open for a minimum of one month
- ◆ \$10 million allocation set-aside for projects with significant economic impact but whose timing does not fit the schedule
- ◆ Allocation prioritization and recommendations made to NMFA Economic Development Committee by NMFA staff, in consultation with NMEDD





# Economic Impact Criteria

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## Community Impact & Support

40 pts

- Quality of Life (10 points)
- Job Retention (10 points)
- Environmental Impact (10 points)
- Targeted Industry (5 points)
- Downtown Redevelopment (5 points)

## Applicant Readiness

20 pts

- Financial Soundness of Proposal (5 points)
- “But-For” mission (5 points)
- Project Readiness (5 Points)
- Qualified Management Team (5 points)

## Job Creation

25 pts

- Types and Location of Jobs Created (10 points)
- Employee Benefits (5 points)
- High Wage Jobs (5 points)
- Direct & Indirect Job Creation (5 points)





## Economic Impact Criteria

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### **Business Location**

**5 pts**

Businesses must be located in a qualified census tract or meet the other federal guidelines. Projects may receive points if they meet additional location targets: Areas of High Distress (5 points)

### **Economic/Export Base Companies**

**5 pts**

A Company deriving most of its revenue from outside New Mexico, either directly or as a supplier to a company doing business outside the State;

### **New Capital Investment**

**5 pts**

Businesses building a new facility or making substantial improvements to an existing facility.





## Community Outreach & Education

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- ◆ NMFA and its NMTC consultants held eight Education & Outreach Seminars held throughout New Mexico
  - Farmington
  - Gallup
  - Las Cruces
  - Hobbs
  - Clovis
  - Albuquerque
- ◆ Seminars geared towards bankers, CPAs, Economic Developers and businesses interested in NMTC financing
- ◆ Seminars in six more locations planned before December 31st





## Finance New Mexico Successes to Date

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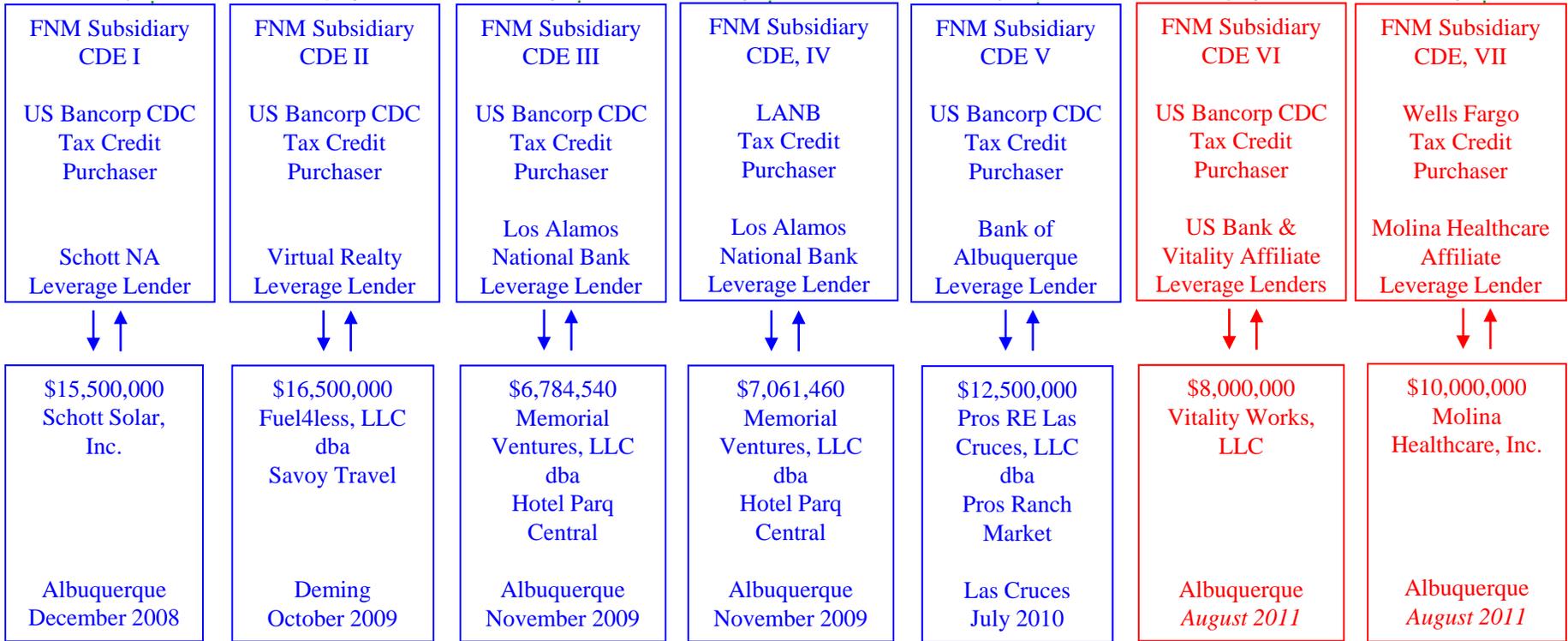
- ◆ Received \$156 million in tax credits to date
  - \$110 million in 2008
  - \$46 million in 2011
- ◆ Brought new investors to the State
  - US Bancorp CDC
  - Los Alamos National Bank
  - Wells Fargo
- ◆ Participated with several leverage lenders to date
  - Los Alamos National Bank
  - Bank of Albuquerque
  - Virtual Realty
  - US Bank
- ◆ To date \$76 million of allocation has been deployed through August 2011, leaving approximately \$80 million of allocation for new projects
- ◆ Approximately 400 jobs already created

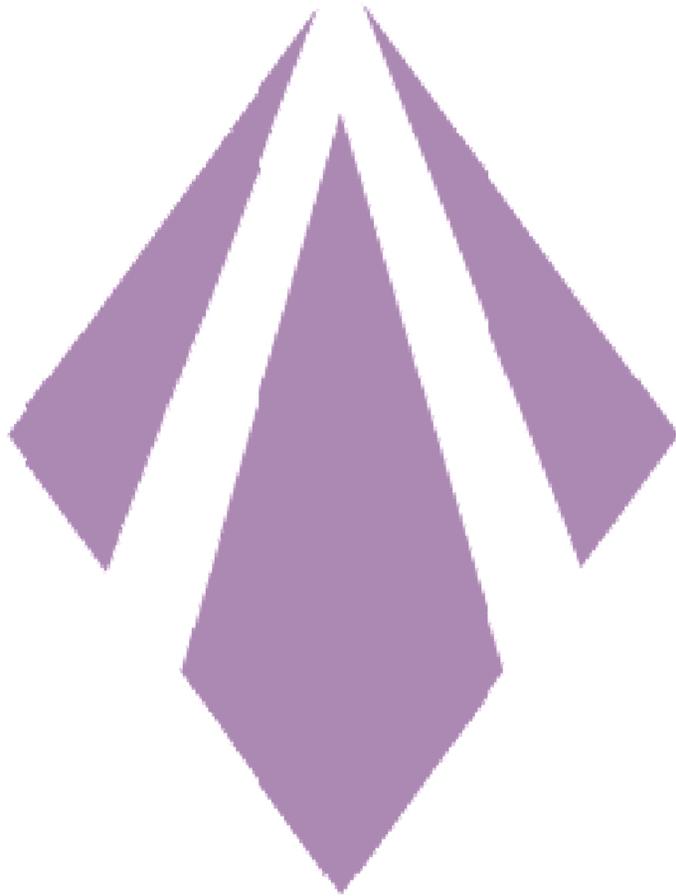




**Finance New Mexico, LLC**  
 Owned 99% by NMFA/  
 1% by NM Community Capital

**FNM Service Company, LLC**  
 Special Purpose Indemnitor  
 Members: Sub-CDE XIV (owned 99% Finance New Mexico/1% NMFA) and Finance New Mexico (owned 99% by NMFA/1% NM Community Capital)





*We are dedicated to improving the lives of New Mexicans by planning and financing infrastructure, strengthening the economy through public/private partnerships and setting the standard for superior, diverse, innovative and solution-driven financing.*

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