



NEW MEXICO
FINANCE AUTHORITY

Presentation to the New Mexico Finance Authority Legislative Oversight Committee

Public Project Revolving Fund Bonds

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Basic Concepts

- ❖ The Public Project Revolving Fund (PPRF) is a Pooled Loan Program
 - ❖ PPRF loans are made to New Mexico municipal entities including cities, towns, villages, counties, school districts, higher education, hospital, political sub-divisions such as sewer and water districts, and tribal entities as well as to State entities.
 - ❖ NMFA publishes 1 to 30 year tax-exempt and taxable loan interest rates each week on Monday morning. The weekly rates are used to close PPRF loans of less than \$10 million in advance of bond issues.
 - ❖ PPRF loans of \$10 million or more are designated as simultaneous loans and are funded at the same rates as the PPRF bond issues that fund them.
 - ❖ Cash liquidity of the PPRF program is used to fund loans in advance of bond issues. PPRF bond issues reimburse PPRF cash liquidity when the bonds close.
 - ❖ The weekly PPRF interest rates that are used to price PPRF loans are adjusted after every PPRF bond issue based on spreads over the applicable interest rate index.
 - ❖ Consequently, PPRF loans are always priced at the best rates available to NMFA based on the latest bond ratings and the latest sale results of PPRF bonds.



PPRF Bond Ratings

- ❖ PPRF bonds are rated by two rating agencies: Standard & Poor's and Moody's
- ❖ Both rating agencies rerate both senior lien and subordinate lien PPRF bonds at the time NMFA sells either PPRF senior lien or PPRF subordinate lien bonds.
- ❖ NMFA sold PPRF bonds, the 2017D series bonds, yesterday. Consequently, PPRF bond ratings are very fresh and are as follows:
 - ❖ Standard & Poor's
 - ❖ PPRF senior lien bonds - AAA/Stable
 - ❖ PPRF subordinate lien bonds - AAA/Stable - **an upgrade from AA+**
 - ❖ Moody's
 - ❖ PPRF senior lien bonds - Aa1/Stable
 - ❖ PPRF subordinate lien bonds - Aa2/Stable



PPRF Bond Ratings

- ❖ The S & P upgrade of the PPRF subordinate lien bonds to AAA is significant:
 - ❖ An AAA rating for both Senior and Subordinate liens is very rare
 - ❖ An Event Notice is sent to municipal bond investors around the country whenever a bond upgrade or downgrade takes place
 - ❖ When a state bond bank receives a very rare upgrade to AAA on a subordinate lien, investors take positive notice. This reflects well on a State regardless of the status of the State's own ratings.
- ❖ Nevertheless, the municipal bond market will still make a pricing differentiation between senior lien and subordinate lien bonds.
- ❖ The AAA rating upgrade of the PPRF 2017D subordinate lien has closed the pricing gap by a few basis points.



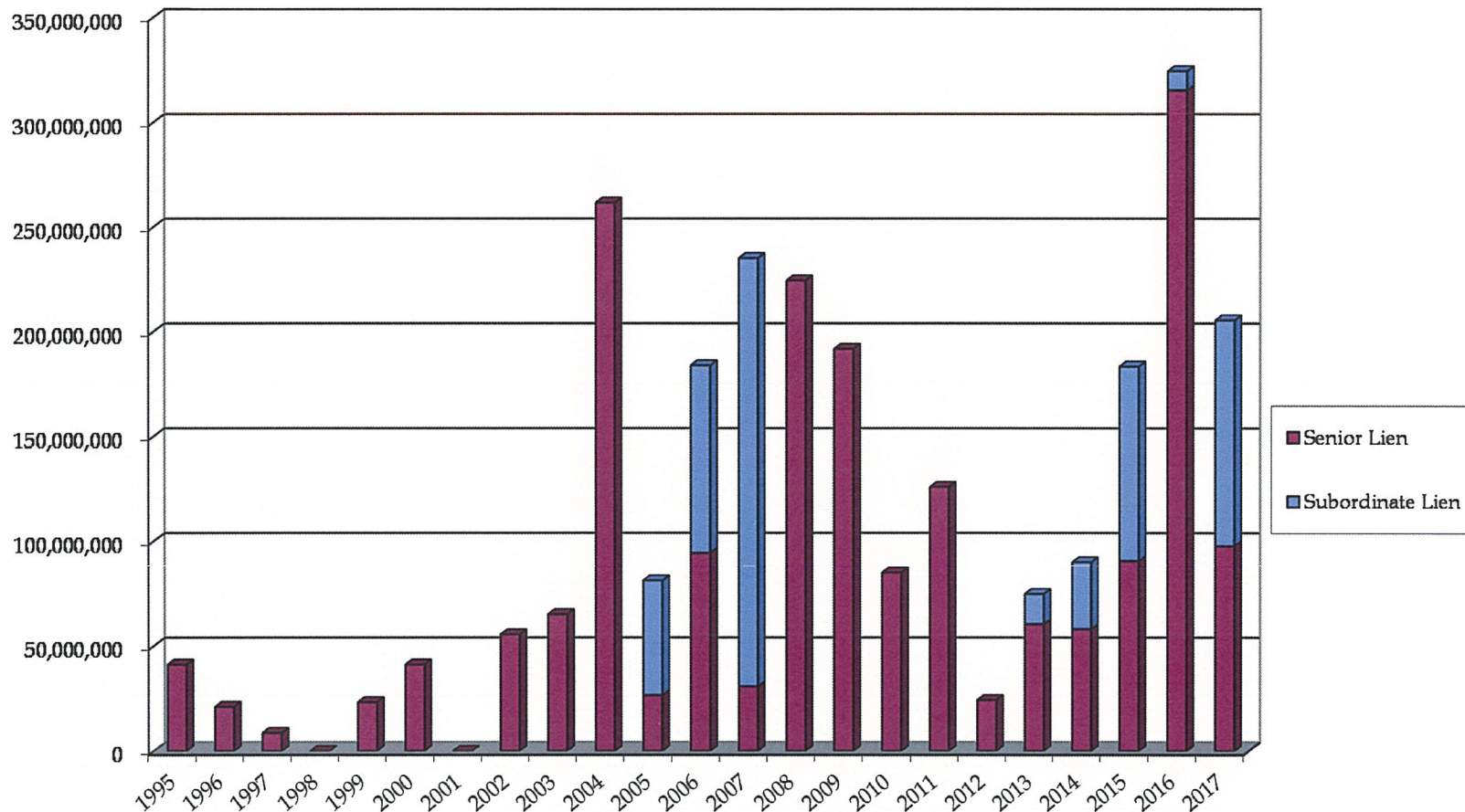
PPRF Senior Lien and Subordinate Lien Bonds

- ❖ The PPRF has two loan pools, a senior lien and a subordinate lien, with loan revenues dedicated initially to the corresponding senior and subordinate bond liens
 - ❖ Loans in both the senior lien and the subordinate lien receive the same interest rate pricing and the credit structuring of underlying borrowers is similar.
 - ❖ The PPRF uses the different liens for several purposes:
 - ❖ To increase overall PPRF capacity
 - ❖ To manage borrower concentration risk
 - ❖ To group loans of certain types – for instance, NMFA books taxable loans in the subordinate lien
 - ❖ The subordinate lien may be used to book loans that investors might find difficult to understand – some tribal credits, for instance.



NMFA lending activity has increased in recent years with stabilized economic conditions, increased outreach by NMFA staff to local governments and continued low interest rates

New Mexico Finance Authority
Par Amount of PPRF Bonds Issued by Year
(Includes 2017D Bonds)



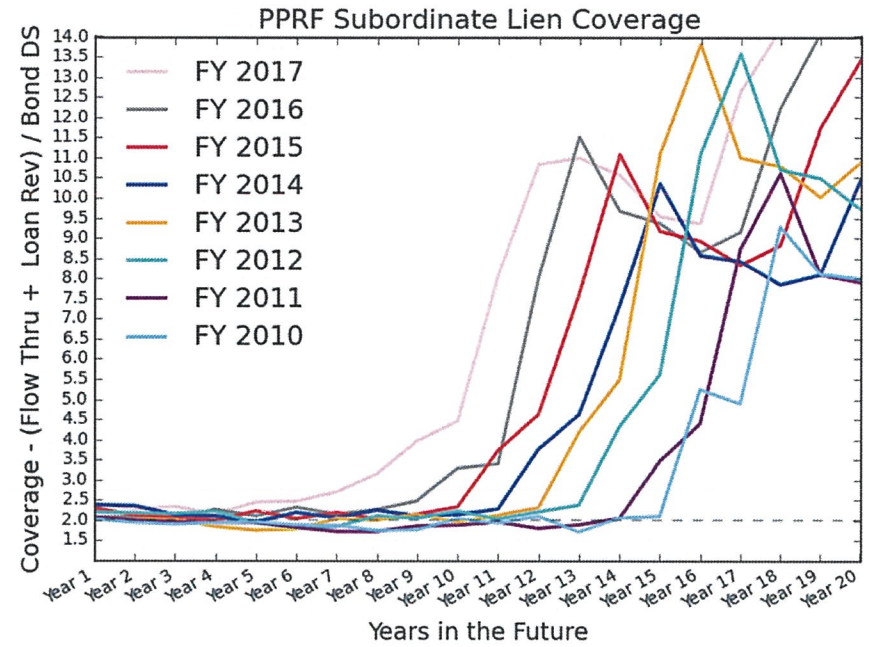
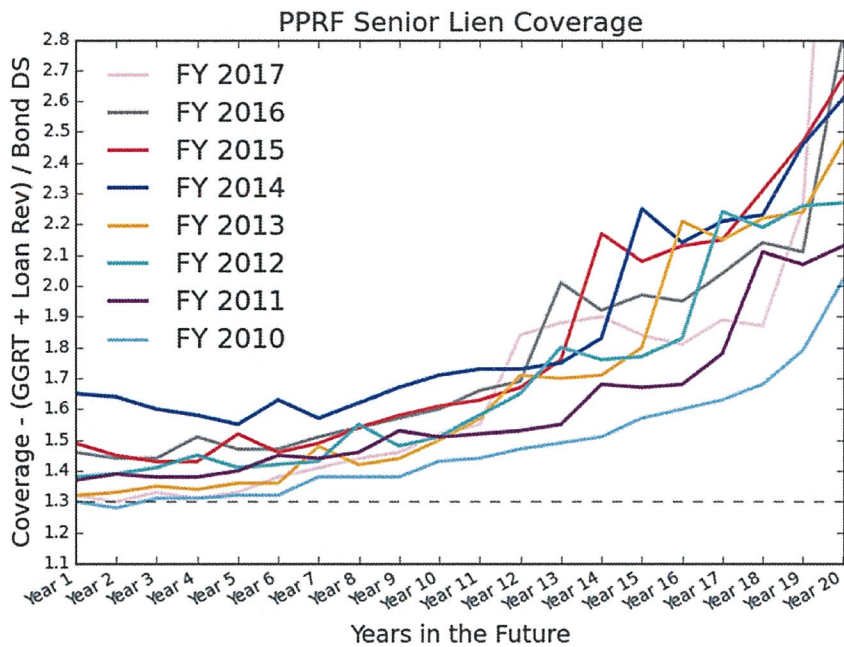


PPRF Bonds are Credit Enhanced and Bond Holder Security is Ensured

- ❖ PPRF bond program coverages are strong due to GGRT being embedded in statute.
 - ❖ Governmental Gross Receipts Tax (GGRT) is the single most important credit enhancement to PPRF bonds. Rating reports of both rating agencies make numerous references to the impact that increases or decreases in GGRT can have on PPRF ratings.
 - ❖ Annual coverage as measured by GGRT plus loan revenues divided by bond debt service exceeds 1.3 for the senior lien and 2.0 for the subordinate lien.
 - ❖ Loan revenues and GGRT included in coverage revenues are not used to support operating expenses. PPRF loan fees support operating expenses and are not counted as loan revenues.
 - ❖ Projected coverages increase as maturities get farther out due to an assumed constant level of GGRT combined with amortizing bond debt service. NMFA has managed the PPRF bond portfolio to shorten average life when possible.
 - ❖ By indenture, loans and GGRT are risk rated and PPRF bonds cannot be issued if risk adjusted coverage does not exceed 1.0. Without GGRT, risk adjusted coverage is below 1.0.



The PPRF Bond Coverages Increase as Portfolios Amortize



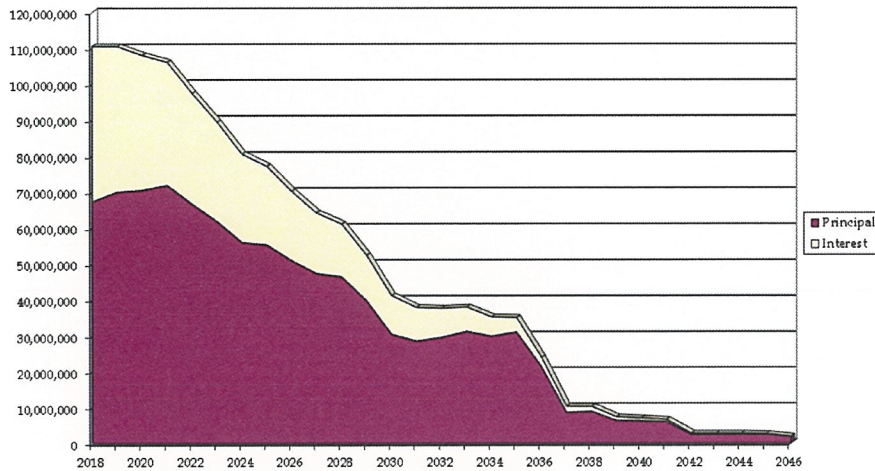


Both Bond Liens Amortize Materially in the Next 10 Years (June 2027)

The Senior Lien by 60.9%

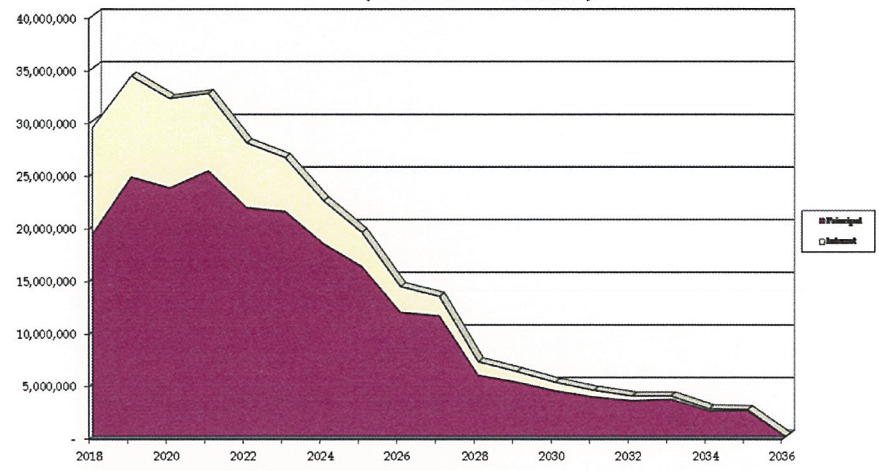
The Subordinate Lien by 86.2%

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Public Project Revolving Fund Senior Lien Debt Service
(Includes 2017C Bonds)



2027 ↑

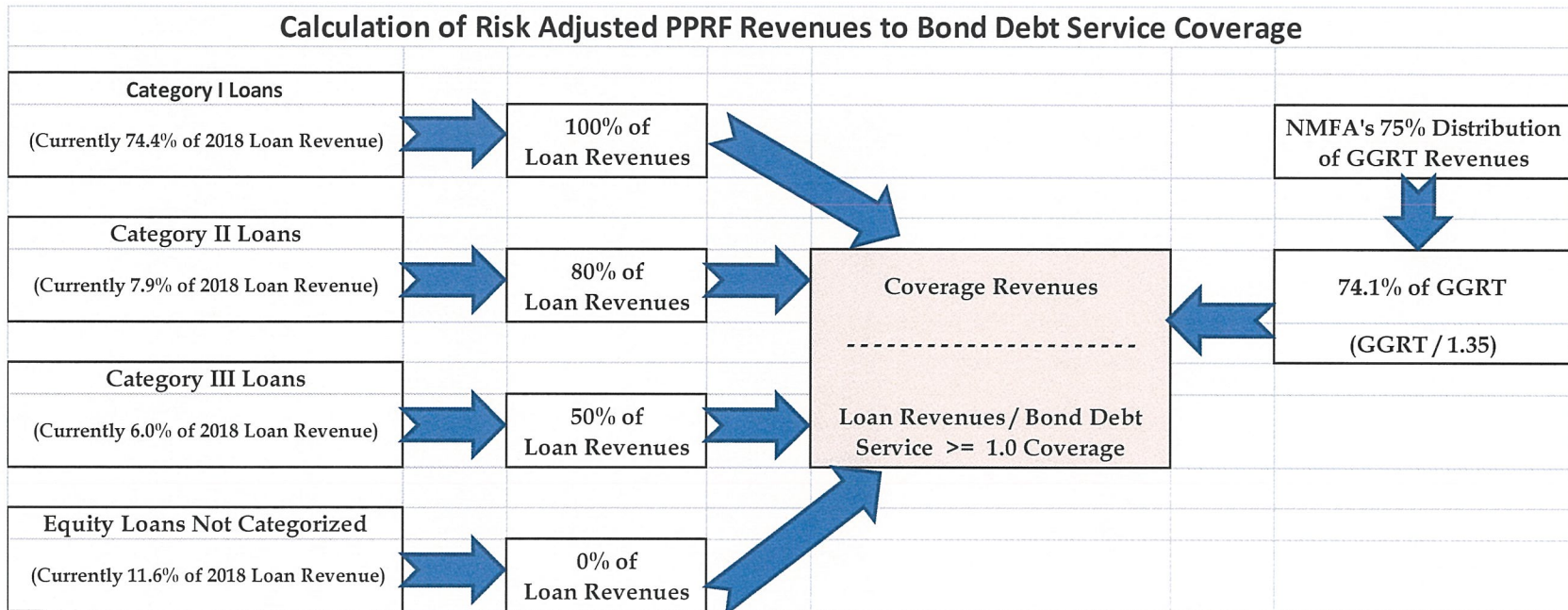
New Mexico Finance Authority
Public Project Revolving Fund Subordinate Lien Debt Service
(Includes 2017D Bonds)



2027 ↑



PPRF Indenture Risk Adjusted Coverage Requirement





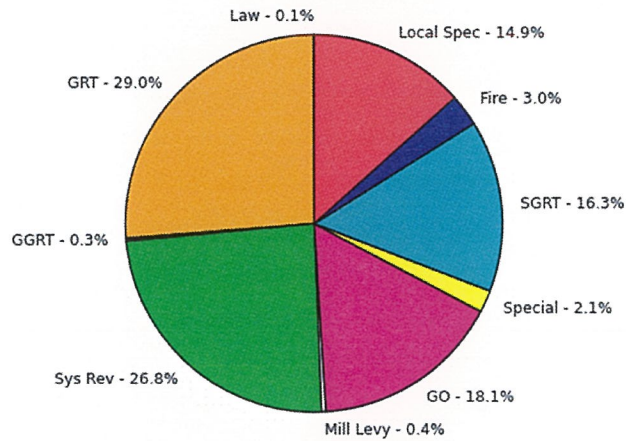
PPRF Bonds are Credit Enhanced and Bond Holder Security is Ensured

- ❖ The PPRF bond program has very effective credit processes, reserves, and back-up agreements:
 - ❖ The senior lien and subordinate lien have indentured reserves of about \$30.6 million each.
 - ❖ Senior lien indentured reserve is the Common Debt Service Reserve Fund (CDSRF)
 - ❖ Subordinate lien indentured reserve is the Supplementary Credit Reserve Fund (SCRF)
 - ❖ Individual borrower debt service reserves of underlying PPRF loans total about \$60 million.
 - ❖ About 60% of PPRF loan revenues are intercepted by Tax & Rev on NMFA's behalf.
 - ❖ NMFA has a \$100 million line-of-credit with Wells Fargo Bank expiring December 10, 2020.
 - ❖ Credit and structuring standards for PPRF loans are high resulting in no payment defaults for any PPRF loans during the history of the PPRF program.
 - ❖ PPRF loans revenues are diverse both in terms of types of revenues pledged and in terms of municipal borrower type.

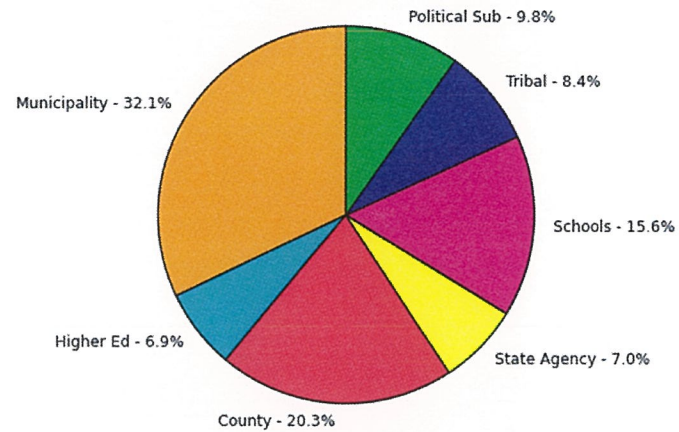


The PPRF Loan Portfolio and Bond Repayment Revenues are Diverse

Combined Liens All Entities O/S Loans = \$1,407,638,935



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PPRF Bonds are Credit Enhanced and Bond Holder Security is Ensured

- ❖ PPRF program liquidity allows bonds to be structured efficiently.
- ❖ For instance, a PPRF bond may be structured with a 20 year final maturity while an underlying loan may go out 30 years with small principal amounts that would not easily be sold to investors, in years 21 to 30. Years 21 to 30 of the loan are then equity funded.
- ❖ Bond issues are structured within the cash flow constraints of reimbursed loans
 - ❖ Size of PPRF reimbursement bond issues are the lesser of:
 - ✓ Outstanding loan amount ; or
 - ✓ Maximum bond size that can be supported from cash flows from reimbursed loans
- ❖ Loans of \$10 million or more are funded simultaneously with the issuance of bonds to limit interest rate timing risk.
- ❖ PPRF bonds are not stand alone bonds – all PPRF revenues, reserves and resources are pledged to repay every PPRF bond regardless of the underlying loans the PPRF bond originally funded.
- ❖ NMFA sells PPRF revenue bonds on a quarterly basis in amounts of around \$50 million. Several steps occur in connection with the issuance of each PPRF bond.



The Process of Issuing Bonds - Players and Their Roles

- ❖ **Borrower** (Public Project Revolving Fund) - pledges a revenue stream of PPRF loan revenues, GGRT and indentured reserves to repay bonds. The PPRF bond **Issuer** is NMFA.
- ❖ **Financial Advisor** - assists in structuring the loan, working with rating agencies, represents issuer during bond sale process.
- ❖ **Underwriter** - sells the bonds to retail and institutional buyers and provides funds at closing. Underwriter(s) may be selected by issuer or by a competitive electronic bid.
- ❖ **Legal Counsel** - various roles:
 - ❖ **Bond Counsel/Tax Counsel** - Prepares legal documentation, confirms tax-exempt status
 - ❖ **Disclosure Counsel** - prepares preliminary official statement and official statement
 - ❖ **Loan Counsel** - confirms status of PPRF loans reimbursed by PPRF bonds
 - ❖ **Underwriter's Counsel** - represents the interests of the underwriters
- ❖ **Trustee (aka Paying Agent)** - acts in a fiduciary role for the benefit of bondholders in enforcing the terms of the trust indenture governing each bond.
- ❖ **Rating Agencies** - assess security and repayment streams pledged to the bonds and assigns ratings. Updates ratings periodically while the bonds are outstanding.



The Process of Issuing Bonds - The Schedule

- ❖ **Issue Structuring** – for a pooled loan program like the PPRF, underlying loan revenue streams determine the structure of the PPRF bonds. Determining PPRF loans to be reimbursed is the first step. PPRF loans can only be reimbursed once by a bond issue.
- ❖ **Legal Documentation** – legal documents that form the basis of the bond sale including parameter authorizing and delegation resolutions, loan agreements, sale resolutions, bond purchase agreements and updated indentures are developed well in advance of the sale. For NMFA, the Board Disclosure Committee and the NMFA Board review and approve the documents at least 30 days before the bonds can be closed.
- ❖ **Disclosure Documents** – the preliminary official statement (POS) needs to be available to potential bond purchasers 10 days to 2 weeks prior to sale.
- ❖ **Rating Presentations** – occurs about one month before the sale of the bonds, which allow the rating agencies about 2 weeks to provide the rating. Underwriters then have another two weeks to pre-market the bonds with ratings assigned.
- ❖ **Bond Closing** – takes place about 2 weeks following the bond sale and occurs in two steps: the pre-closing (the day before closing) at which most documents are signed and the closing, the morning on which funds are wired from the underwriter to the Trustee to be held for the issuer's legal use.



The Process of Issuing Bonds – Common Features of Bonds

- ❖ Bonds issued in the Municipal market by public entities have common features:
 - ❖ The ability to call the bonds before maturity. The standard is a 10-year Call.
 - ❖ Bonds are issued in denominations of \$5,000 and registered with the Depository Trust Company (DTC).
 - ❖ Each bond maturity has its own interest rate (coupon) and yield. Some bond maturities will be bifurcated or trifurcated meaning different principal amounts with the same maturity but with different coupons and yields.
 - ❖ Bonds in each maturity for each coupon will have a unique CUSIP assigned.
 - ❖ When the coupon and the yield are not the same for a given maturity, a premium to par or a discount from par will result.
 - ❖ Bonds are priced against a common index – usually the MMD or Municipal Market Data Index updated daily by Thompson. MMD yields assume a 5% coupon. Yields of bonds being sold are adjusted depending on couponing.



The Process of Issuing PPRF Bonds - Pricing of Bonds

- ❖ The term “interest rate” is imprecise. “Yield” reflects the market’s assessment of a bond’s worth. The “coupon rate” is just a way to create a marketable structure.
- ❖ At the most basic level the price of a bond is function of the coupon rate, the yield, the term of the bond and the call provisions on that bond.
- ❖ Yield is a function of credit, type of project, tax status, type of issuer, state and local tax laws.
- ❖ Price is calculated to lowest price, or “yield-to-worst”. This takes into account the value of the call option, and means that the actual yield of callable premium bonds is higher than stated in the official statement.
- ❖ Impact of yield on pricing:

	Par Bond	Discount Bond	Premium Bond	Non-Callable Premium Bond
Dated:	6/1/2017	6/1/2017	6/1/2017	6/1/2017
Maturity:	6/1/2035	6/1/2035	6/1/2035	6/1/2035
Coupon:	4.75%	4.75%	4.75%	4.75%
Yield:	4.75%	5.00%	4.50%	4.50%
Par Amount:	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000
Price:	100.000	96.956	101.995	103.170
Cost to Buyer:	\$ 5,000	\$ 4,848	\$ 5,100	\$ 5,159



The Process of Issuing PPRF Bonds - Day of Sale

- ❖ The Financial Advisor structures and proposes pricing of the bond issue using comparable bond issues of similarly rated bonds. The FA's objective is to guide underwriters to achieve the lowest cost consistent with NMFA structuring needs:
 - ❖ Total Debt Service is the total of annual principal and interest payments made to investors over the life of the bond issue.
 - ❖ In addition to total debt service, pricing is measured in several ways: Arbitrage Yield (for IRS purposes); Average Coupon, Average Life; True Interest Cost; Net Interest Cost; All-in Net Interest Cost.
- ❖ The firms underwriting the bonds manage the pricing process of the bonds from their pricing / syndication desks located in financial centers like NYC.
 - ❖ On sale day, pricing is agreed with the issuer and then released to potential investors. Pricing is influenced by that day's expected market events and by competing bonds.
 - ❖ Depending on investor reception, pricing - coupon and yield - are adjusted on a maturity by maturity basis to maximize participation at the lowest all-in cost.
 - ❖ Bonds that are not placed with investors are held in underwriter inventory for later sale.