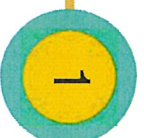


NEW MEXICO
FINANCE AUTHORITY



Presentation to
New Mexico Finance Authority
Oversight Committee

Innovative Financing Tools

Marquita Russel, Chief Executive Officer
Fernando Martinez, Jr., Deputy Director

July 2, 2024

NMFA Governance



2

- **Kathy Keith, Chair**
- **Martin Suazo, Vice Chair**
- **AJ Forte, Secretary**
Executive Director, New Mexico Municipal League
- **Andrew Burke**
- **Teresa Costantinidis**
Senior Vice President for Finance & Administration
University of New Mexico
- **Joy Esparsen**
Executive Director, New Mexico Counties
- **Melanie Kenderdine**
Secretary Designate, Energy, Minerals and Natural Resources
- **James Kenney**
Secretary, NM Environment Dept
- **Ronald Lovato**
- **Wayne Propst**
Secretary, NM Dept of Finance & Administration
- **Mark Roper**
Acting Secretary, NM Economic Development Dept

- ◆ 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
- ◆ Expansive programming and service to New Mexico
 - Authorized to operate 25 programs through 13 Acts
 - New Mexico Finance Authority Act (NMSA § 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 (NMSA § 6-25-6):
 - Purpose: "assist eligible entities in financing projects" and to promote "achievement of economic development goals..."
- ◆ Administrator of four other Boards and their respective committees and one Executive Task Force
- ◆ Overseen by 29-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	6-21-6.0	Legislature
✓	1994	Primary Care Capital Fund	Primary Care Capital Funding Act	24-1C-4	DOH
✓	annually	1997 Drinking Water State Revolving Loan Fund	Drinking Water State Revolving Loan Fund Act	6-21A-4	NMED
✓	annually	1999 Water and Wastewater Grant Fund	New Mexico Finance Authority Act	6-21-6.3	Legislature
✓	annually	2001 Water Project Fund	Water Project FinanceAct	72-4A-9	WTB/Leg
✓	✓	2002 Local Government Planning Fund	New Mexico Finance Authority Act	6-21-6.4	Various
✓	2003	Economic Development Revolving Fund (Smart Money)	Statewide Economic Development Finance Act	6-25-6.1	NMEDD
•	✓	2003 Child Care Revolving Loan Fund	Child Care Facility Loan Act	24-24-4.0	ECECD
•	2004	Acequia Project Fund	Water Project FinanceAct	72-4A-9.1	WTB/ISC/Leg
✓	•	2004 Behavioral Health Capital Fund	Behavioral Health Capital Funding Act	6-26-4	HCA
•	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	6-25-6.1	FNM/NMEDD
✓	annually	2007 Local Government Transportation Fund	New Mexico Finance Authority Act	6-21-6.12	DOT
•	✓	2010 Colonias Infrastructure Project Fund	Colonias Infrastructure Finance Act	6-30-1.0	CIB
•	✓	2011 Collateral Support Participation Program	Statewide Economic Development Finance Act	6-25-13	NMEDD
✓	2021	Essential Services Working Capital Program	Statewide Economic Development Finance Act	6-25-13	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 Act of 2020	6-32-1	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 Improvement Act	6-21-6.16	(PSCOC)
✓	✓	2022 Opportunity Enterprise Revolving Fund	Opportunity Enterprise and Housing Development Act	6-34-12	OE&HDRB
✓	✓	2024 SSBCI Capital Access Program	Statewide Economic Development Finance Act	6-25-6	NMEDD
✓	✓	2024 Housing Development Revolving Fund	Opportunity Enterprise and Housing Development Act	6-34-1	OE&HDRB

Capital Access Reports



4

- ◆ NMFA has commissioned two recent reports that look at the capital landscape in New Mexico:
 - **New Mexico Access to Capital Report (June 2021):** Council of Development Finance Agencies (“CDFA”) performed a comprehensive review of “development finance tools” available in New Mexico (infrastructure, economic development, and pandemic relief & recovery programs) and offer suggestions for new programs or opportunities to improve New Mexico’s existing economic development finance climate.
 - Process: CDFA independently reviewed public resources to gather information and conducted interviews with stakeholders in NM to inform the recommendations.
 - Goal of the report: advance the ongoing conversation about how to best support capital access in NM and improve economic vitality across the state.
 - **New Mexico Small Business Ecosystem Landscape (October 2023):** Next Street performed a research study to evaluate the size and types of businesses in New Mexico, understand their capital needs and determine whether sufficient funding existed to fill those needs.
 - Process: Next Street used US Census data, self-reported small business survey data, and focus groups to identify the environment and gaps. The size of the gaps were projections based on publicly available data.
 - Goal of the report: understand the small business environment in New Mexico and identify gaps in the finance ecosystem and develop venture capital and SSBCI programs accordingly.

- ◆ CDFFA is a national association formed in 1982 to advance development finance concerns and interests
 - Organized by leading finance agencies to strengthen and increase use of tax-exempt and other finance tools that foster job creation and economic growth
 - CDFFA assists the development finance industry including education, advocacy, research, resources and networking
 - CDFFA is comprised of the nation's leading and most knowledgeable members of the development finance community. Members are
 - state, county and municipal development finance agencies
 - authorities that provide or otherwise support economic development
 - non-governmental and private organizations including bankers, underwriters, attorneys, financial advisors and other organizations interested in development finance
- ◆ What is development finance?
 - Public sector support to catalyze and facilitate private sector investment
 - Development finance agencies can be local or statewide. They offer programs such as grants, bond finance, direct loans, guarantees, venture capital, and tax credits programs
 - Largest Development Finance agencies in NM include NMFA, MFA, EDD, and NMED

Key CDFA Recommendations



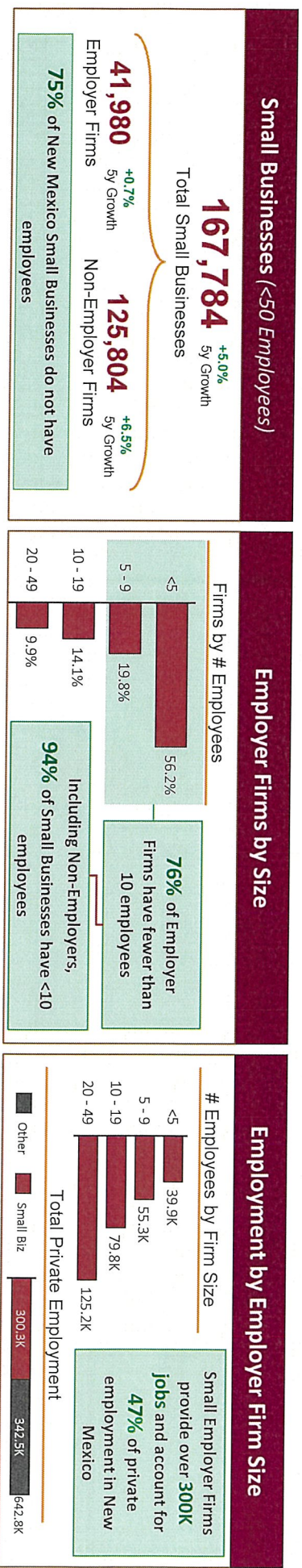
6

- ◆ Reforming the capital outlay process is the single most important action that would catalyze economic development finance in New Mexico
 - For projects relying on that capital from certain programs, the annual legislative process creates uncertainty about whether the project can occur or meet construction or financing milestones
 - Dividing up funding based on a formula, rather than a need-based system, often means that expansive or transformative projects may not receive the necessary funding
 - Consider appropriating funds to specific financing programs and then delegating authority to the appropriate agencies to make financing decisions. Those agencies would then be able to more quickly and more efficiently meet the needs of critical economic development projects
 - Explore the consolidation or formal coordination of finance programs. Decentralized administration of development finance tools made it very difficult to understand what is available
 - Increase flexibility of existing programs
 - Expand capacity of existing programs that work
 - Create programs that fill gaps in the capital structure
 - Capital Access Program through the Federal State Small Business Credit Initiative (“SSBCI”)
 - Food-focused revolving loan fund
 - Beginning and Expanding Farmer Loan program (“Aggie Bonds”)
 - Broadband Infrastructure
 - Clean Energy programs

Key Findings: New Mexico Small Business Snapshot



- ◆ NMF A commissioned Next Street to research New Mexico small businesses and their funding needs to help inform how the NMF A 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**

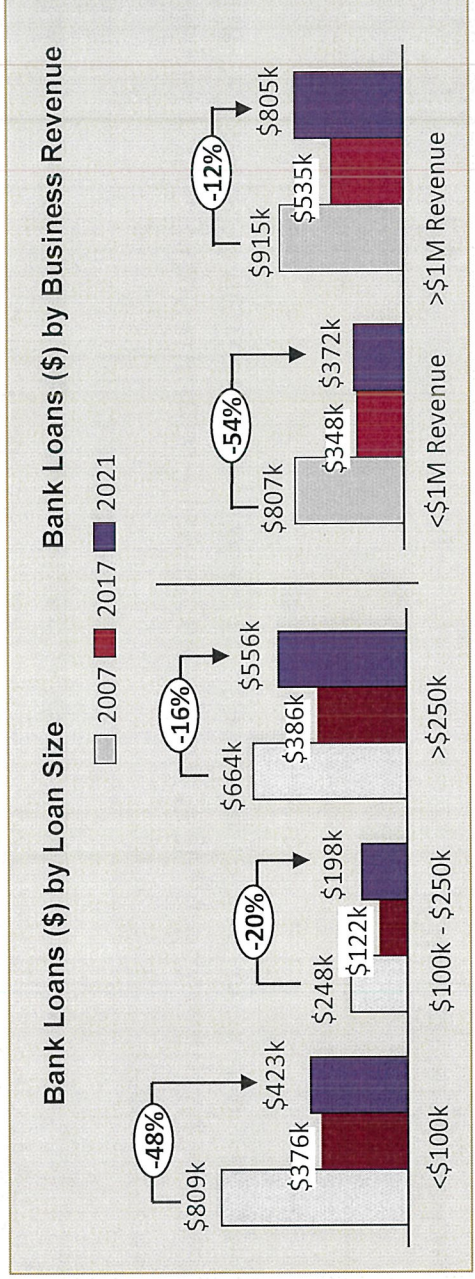


Source: Research commissioned by NMF A in 2023 conducted by Next Street

Key Findings: New Mexico Small Business Funding



- ◆ 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

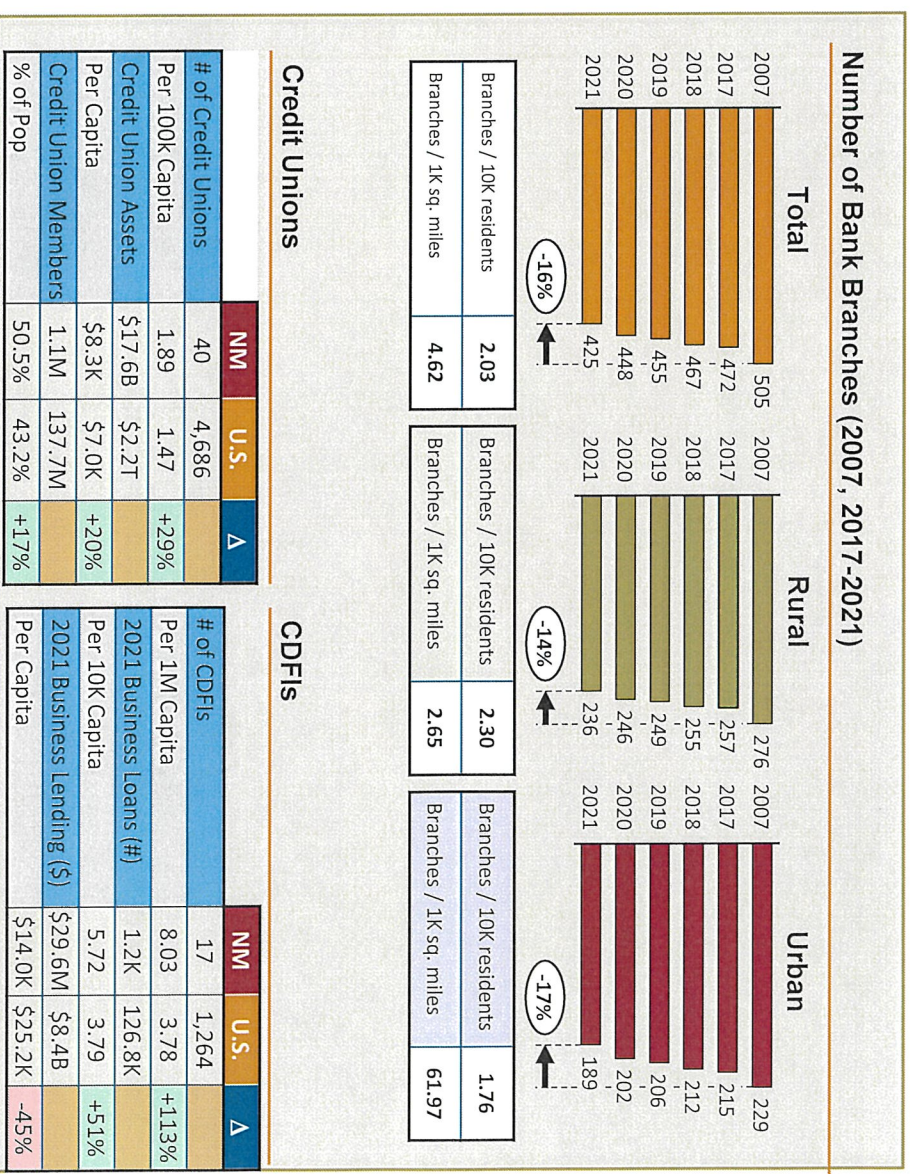


Source: Research commissioned by NMFA in 2023 conducted by Next Street

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.



Source: Research commissioned by NMF A in 2023 conducted by Next Street

Funding Landscape



10

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

NMFA Venture Capital

SSBCI Capital Access

SSBCI Loan Participation

NMEDD Collateral Access



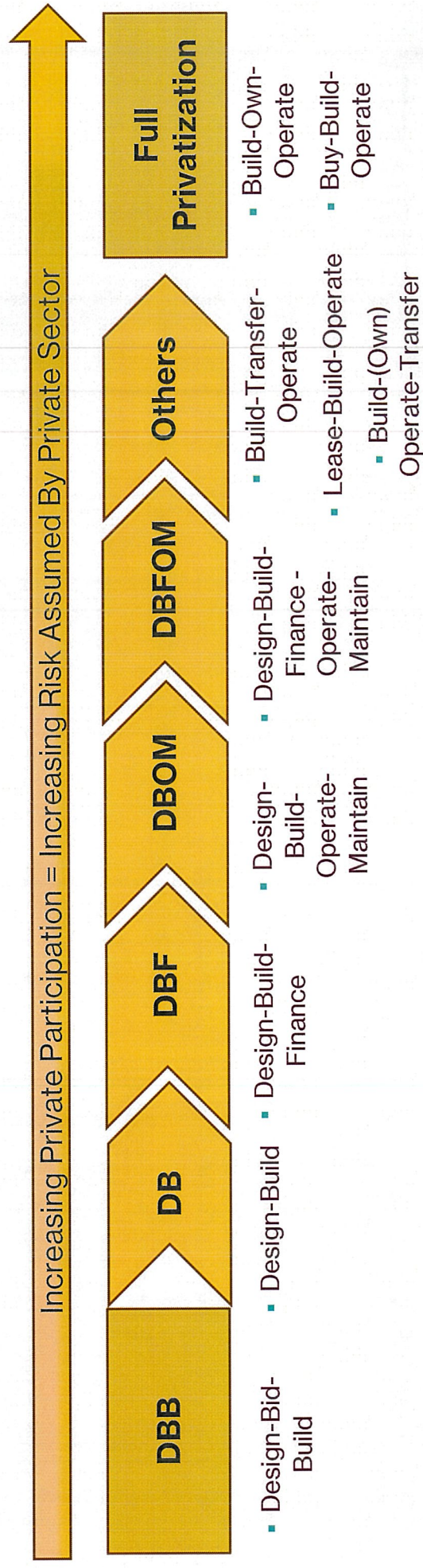
Key Take-Aways

- ◆ Increase the amount of funding available
- ◆ Reduce barriers to access
- ◆ Utilize more technology driven platforms that reduce the time it takes for businesses to be approved for funding.
 - FinTech businesses are being looked to more to increase diversity and inclusion in small business lending
- ◆ Increase the capital to CDFIs to allow greater lending.
 - Provide seed capital to CDFI's that are highly aligned with New Mexico business and housing needs to incentive more CDFI lending and counseling in the state
 - Equity Equivalent ("EQ2") transactions are long-term, deeply subordinated loans made to CDFIs. Patient capital, low-interest capital that mimics equity on CDFI's balance sheets allowing them greater ability to leverage intermediary re-lending programs, such as SBIC
- ◆ Increase the amount of funding directed to flexible debt products

P3s: Public-Private Participations

12

- ◆ Public Private Partnerships are a broad category of transactions where risk and reward are shared between a public body and private enterprise in the development of a public project.
- ◆ Most states have adopted some form of P3 enabling statutes, particularly for transportation projects. New Mexico does not have legislation, however P3 transactions occur through agencies such as NIM Renewable Energy Transmission Authority and NMFA (Opportunity Enterprise Lease Assistance)
- ◆ Transactions are highly negotiated, and documents not easily standardized.
- ◆ P3s typically spread the cost of public projects over the useful life often resulting in project completion that emphasizes durability and efficiency



Other Tools to Facilitate Infrastructure Investment

- ◆ Special Purpose Districts whereby an identified tax or assessment is levied against the property:
 - Special Assessment Districts
 - Public Improvement Districts
 - Municipal Utility Districts
- ◆ Tax Incrementment for Development Districts which provide that incremental tax revenues generated by a project are dedicated to the repayment of the bonds that financed the infrastructure for that project
- ◆ Lease Backed Securities
 - Monetize future flow of lease revenue to finance a project.
 - Project sponsor constructs and leases a project to an agency through a master lease which then subleases to underlying users. A strong master leasing agency is beneficial because lenders can underwrite the strength of one entity (the master leasing agency) rather than numerous smaller lessees.
- ◆ Guarantees
 - Support private financing through use of guarantees and first loss reserves

