

NEW MEXICO  
**FINANCE AUTHORITY**

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# **Report on NMFA New Program Activity**

Marquita D. Russel, Chief Executive Officer  
Adam K. Johnson, Chief of Operations Innovation

October 2, 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
- ◆ 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 ... 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...”
- ◆ Overseen by 32-Member NMFA Oversight Committee

# Statutory Authority

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Active	Funded	FY	Program Name	Enabling Act	Statute	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
✓	✓	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	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 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	6-25-6.1	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	6-25-13	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 and Stimulus Act	6-32-3	Leg/SIC
✓		2021	New Mexico LEDA Recovery Grants	Local Economic Development Act	5-10-16	NMEDD/Leg
✓	✗	2022	Cannabis Microbusiness Program	Statewide Economic Development Finance Act	6-25-13	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

# Impact of New Programming

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- ◆ Organizational realignments and technology investments made since 2020 reduce impacts of program funding fluctuations, enhance monitoring, and provide organizational resiliency
  - ❑ Blended public and private lending departments to provide more opportunities for client interaction and greater ability to serve community needs
  - ❑ Created independent credit department to support the analysis of complex credits and strengthen loan portfolio monitoring
  - ❑ Transitioned Recovery programs group into a new program administration unit for community and economic development programs which oversees competitive application cycles, monitors project development, and captures impact of funding
  - ❑ Created client services department to reduce fragmentation and provide clients with a single point of contact after the closing process
  - ❑ Doubled the size of the IT department and enhanced technology to reduce fraud and increase security of data
  - ❑ Created an Operations Innovation group to enhance client experience, operational efficiency and reporting quality
  - ❑ Added communications person and enhanced web and social media presence
  - ❑ Established a robust Enterprise Risk Management compliance program

- ◆ **PPRF makes low-cost loans to State, local and Tribal governments to finance public infrastructure and equipment**
  - Borrowers receive the PPRF’s ‘AAA’ interest rates regardless of the borrower’s credit or size
  - NMFA’s approval includes a 90-day interest rate cap
  - No fees since January 2020; NMFA absorbs underwriting, rating and other issuance costs, and produces the Official Statements, resulting in savings of time, effort, and costs to the borrower
  - Applications accepted monthly; applicants seeking to borrow more than \$1 million must first receive authorization by the legislature
  
- ◆ **In addition to low ‘AAA’ interest rates, clients with Median Household Incomes (“MHI”) below the State’s MHI may receive Disadvantaged Entity Funding:**
  - Clients with an MHI between 80% - 100% of the State MHI may receive 2% interest rate and Clients with an MHI that is less than 80% of the State MHI may receive 0% interest rate
    - Equipment loans may receive up to \$150,000 in disadvantaged funds
    - Infrastructure and building loans may receive 10% of the PPRF loan in disadvantaged funding, up to \$500,000
    - Clients are limited to \$500,000 of disadvantaged funds per fiscal year
    - Disadvantaged entity funding is not provided for loans greater than \$5 million or for refunding loans

- ◆ The PPRF has never been stronger:
  - Disciplined management in the implementation of PPRF scope policies, and projects and committed to the long-term enduring success of the program
  - GGRT revenues have a history of stable growth and continue to provide a unique level of support for the PPRF program
  - Strong credit enhancement features including intercepts and loan/borrower/bond reserves to support repayment of debt service
  - Actively managed program has resulted in stable bond coverage and no defaults/delinquencies in the PPRF's 30-year lending history
  - Conservative debt profile with fixed rate bonds, rapid amortization of debt, and utilization of cash to redeem bonds support the sustainability and resiliency of the PPRF program
  
- ◆ PPRF well positioned to extend the benefits of the PPRF to currently Qualified Entities that have not enjoyed broad access to the program because of credit considerations such as Public Improvement Districts and Charter Schools. NMFA is creating a junior lien to offer affordable financing options to these Qualified Entities.

# Opportunity Enterprise Revolving Loan Fund



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Created during the 2022 Legislative Session, the Opportunity Enterprise Act (the “Act”) provides a partnership and funding program to support local communities in building and investing in commercial spaces to directly support their economic development initiatives. This program differs from other state and federal programs because it allows the funding to be used to support nonowner-occupied facilities, sometimes referred to as “speculative development.”

The Act created the Opportunity Enterprise Revolving Fund and allows NMFA to finance projects recommended by the 12-member Opportunity Enterprise Review Board (“OERB”).

Pursuant to the Act, the NMFA may make loans to a private business entity that NMFA determines is or will be engaged in an enterprise that creates or expands economic development opportunities within the state. Projects must advance an environmentally sustainable economic development goal of the state.

The application consists of two parts: a project application that is scored based on specific criteria in the OERB Project Prioritization policy. The loan application is reviewed for financial soundness, ability to repay the loan, and statutorily program requirements that other means of financing are unavailable or insufficient.

Only businesses whose applications score high enough to be prioritized by the OE Review Board are invited to submit a loan application

# Opportunity Enterprise Review Board & Project Selection Policies



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- ❑ **Joe Farr, Chair**  
Duke City Commercial, Albuquerque
- ❑ **Jennifer Garcia Kozlowski, Vice Chair**  
Downtown Las Cruces Partnership, Las Cruces
- ❑ **Victor Mendoza**  
RPM Lending Solutions, Los Lunas
- ❑ **Brian Condit**  
NM Building & Construction Trades Council, Albuquerque
- ❑ **Priscilla Lucero**  
Executive Director of SWNMCOG
- ❑ **Jon Clark\***  
NM Economic Development Dept.
- ❑ **Robert Doucette, Jr.\***  
NM General Services Dept.
- ❑ **Wayne Propst\***  
NM Dept. of Finance & Administration
- ❑ **Laura Montoya, NM State Treasurer\***
- ❑ **Joseph Maestas, NM State Auditor\***
- ❑ **Two Vacancies**

\*Ex-Officio members

## OERB Policy delineates how applications are prioritized

- ❑ **Community Impact & Support 25 points**
  - Community Support (15 points)
  - Environmental Impact (5 points)
  - Re-Development (5 points)
- ❑ **Job Creation & Employment 25 points**
  - Job Creation (5 points)
  - Construction Jobs (5 points)
  - Project High Wage Creation (5 points)
  - Training & Apprenticeship (5 points)
  - Justice, Equity, Diversity & Inclusion (5 points)
- ❑ **Applicant Readiness & Need 25 points**
  - Financial Soundness of Proposal (5 points)
  - Qualified Development Team (5 points)
  - Leveraging of Private Capital (5 points)
  - "But-For" Test (5 points)
  - Project Readiness (5 points)
- ❑ **Business Location & Industry 25 points**
  - Project Location (10 points)
  - Target Industry (10 points)
  - Economic Diversification (5 points)



# Application Round 1



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At its meeting on June 6, the OERB approved the opening of a competitive application cycle (open June 7 – July 31<sup>st</sup>) for \$17.5 million (25% of the \$70 million fund).

NMFA coordinated program details with NMEDD Regional reps as the primary method of contacting potential applicants. Additionally, the NMFA website provides detailed information to interested businesses.

- 33 complete applications were submitted for a total dollar amount \$136.2 million
- Average request of application - \$4.2 million
- The policy and resulting application requires information about both the applicant and the future business occupant(s)
- A team of 6 staff members – 3 from NMFA and 3 from NMEDD - reviewed and ranked the 33 applications.

The reviewers were provided training, and the process was designed to enforce the scoring criteria approved in the OERB Prioritization Policy. The nature of the process required applicants to support their written answers with demonstrable evidence.

Applications included a large number of owner-occupied facilities.

The projects were prioritized; seven met the policy target of at least 60 points. NMFA is now underwriting in the order prioritized.

# Program Terms



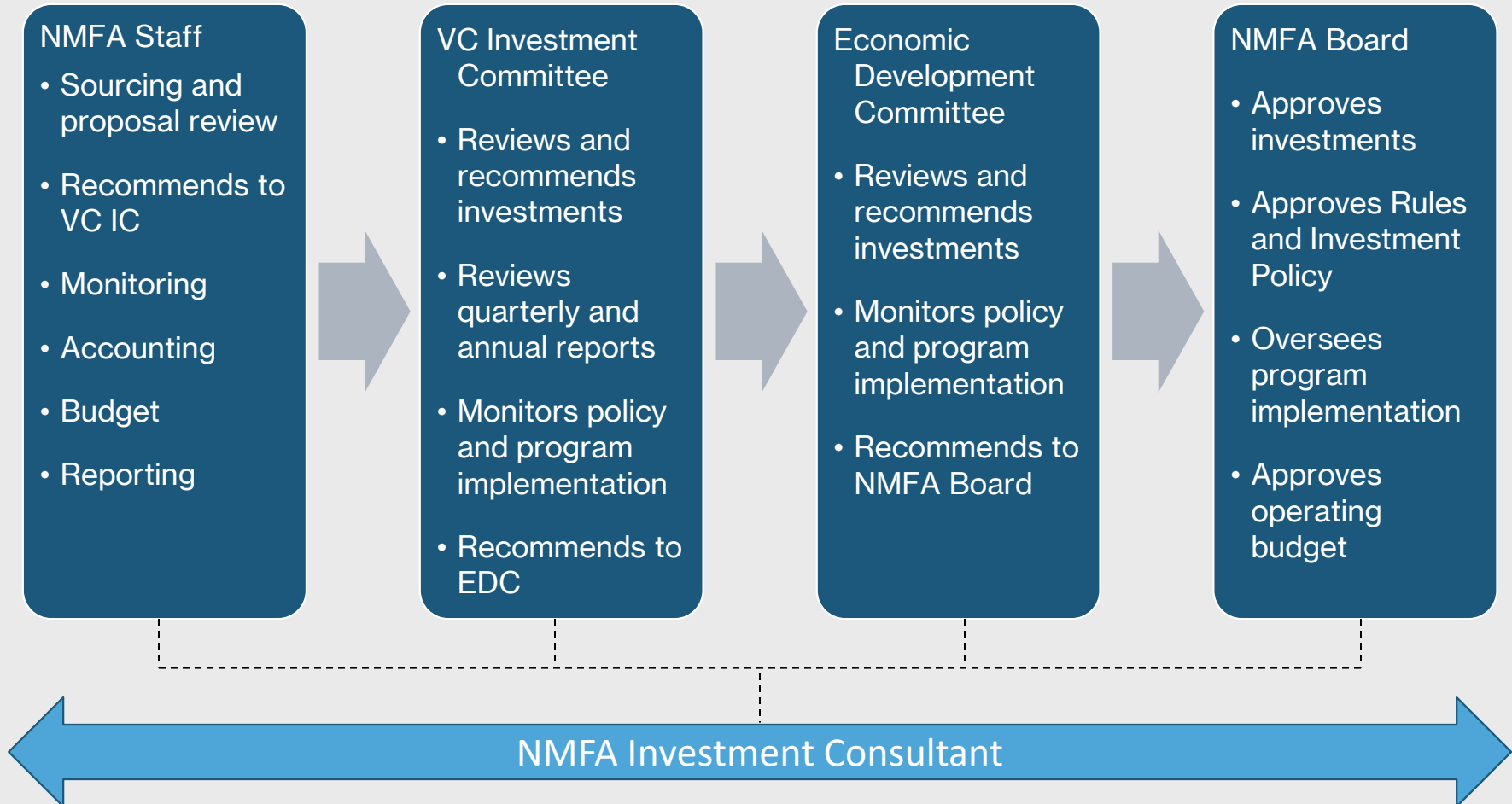
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- ◆ Fund Concentrations
  - No more than 25% to any single County
  - No more than 50% to a single industry as defined by the two-digit North American Industry Classification System (NAICS)
  - Applicants may only submit one application per round and may not receive assistance more than once in a calendar year
- ◆ Statutory Requirements
  - Other means of funding are insufficient or unavailable
  - The project will create or expand economic development opportunities within the state
  - The project will comply with state and federal law
- ◆ Loan Terms
  - Loan Amount: Maximum of \$17,500,000.
  - Interest Rate: Fixed rate at 60% of the WSJ prime rate, but no less than 3%
  - Term: 15-30 years. Up to three years of interest only period during construction and stabilization. The loan may be paid off in advance with no pre-payment penalty.
  - Collateral: Minimum loan-to-value of 80%. The loan may be subordinated to a loan made to the project by a federally insured financial institution.
  - Guarantees required. Minimum equity contribution of 10%.

## ◆ **The Venture Capital Program Act – 2022 HB 104/a & 2023 SB 402**

- 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
- \$35 million appropriated in FY2022 & \$15 million from 2023's HB2

- ◆ Created during the 2022 Legislative Session, the Venture Capital Program Act authorized NMFA 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:
  - Venture private equity funds – an entity that makes, manages or sources potential investments. Has at least one full-time, experienced manager
  - Direct Investment
- ◆ NMFA adopted Venture Capital Rules and a Venture Capital Investment Policy that guides the investment of \$50 million in state Venture Capital Program funds and approximately \$15 million in federal State Small Business Credit Initiative funds
- ◆ Investment Policy provides guidance:
  - Federal funds must be matched 1:1 with private capital
  - State funds must be matched .7:1 with capital from accredited investors
  - At this time, only supports investments in Venture Private Equity Funds



NMFA operates the Venture Capital Program Fund with the assistance of Meketa Investment Group who vets potential funds, performs in-depth due diligence on fund managers, and monitors and reports on fund performance, including economic development impacts

- ◆ At its September 28th meeting, the NMFA Board approved two investments:
  - Up to \$10 million in state Venture Capital Funds to the New Mexico Opportunity Fund, managed by Sun Mountain Capital that will complement current VC funds operating in NM:
    - Strategic focus on early-stage companies from a broad range of sectors including both traditional and non-traditional VC investment industry sectors with a strong base in NM
    - Invest in companies with existing revenues or visibility to revenue generation (i.e. no science projects with long-cycle research and development)
    - Deploy a flexible investment approach: utilize both traditional equity and quasi-equity investing approaches that create a structured return to allow for investor liquidity without needing an “exit”
    - Ability to lead investments into companies (as well as co-invest) provides flexibility for the type of financial instruments that can be used and expands the universe of investment opportunities
  - Up to \$7 million in federal SSBCI Venture Capital Funds to Tramway Partners III which will focus investments in early-stage companies in the medical technology, biotechnology and healthcare technology sectors.

# Small Business Recovery Loan Fund (SBRL)



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- ◆ The Small Business Recovery Act was enacted during the 2020 first Special Legislative Session. The Act directed NMFA to make very low-interest loans to businesses that experienced significant drops in sales early in the pandemic. The program was funded from an investments of the state's Severance Tax Permanent Fund.
- ◆ NMFA was tasked with setting up the program and processing applications to provide funds quickly to businesses at risk of closing or laying off employees as a result of the pandemic. The eligibility requirements in the statute were intentionally broad to help save New Mexico businesses, therefore traditional loan underwriting was not applicable to the program.
- ◆ The 2021 Legislature broadened and extended the Small Business Recovery Loan Fund through the Small Business Recovery and Stimulus Act to increase access to the loan fund and offer enhanced loan terms to NM businesses.
- ◆ The Small Business Recovery Loan Fund was created with flexible, generous terms to help New Mexico's small businesses survive the COVID-19 pandemic.

- ◆ Between 2020 and 2022, the Small Business Recovery Loan Fund provided low-interest loans totaling \$178 million to 2,552 businesses across 21 sectors and 32 counties. The average loan size was approximately \$67,000.
  - 880 loans totaling \$40,137,854 were made during first application period
    - 464 loans totaling \$21,856,295 were refinanced as part of the broadened program
  - 1,672 new loans totaling \$137,909,699 were made using the broadened program
- ◆ Without the Small Business Recovery Loan Fund, some New Mexico small businesses likely would not have survived. 90% of businesses reported in the NMFA client survey that the financial assistance was “very important” to keeping their business open

*Receiving this loan meant that we could ensure the least amount of impact to those directly around us by not laying anyone off and maintaining a quality service instead of prioritizing unchanging expenses. Most importantly, it provided peace of mind for us, our employees, and our customers.”*

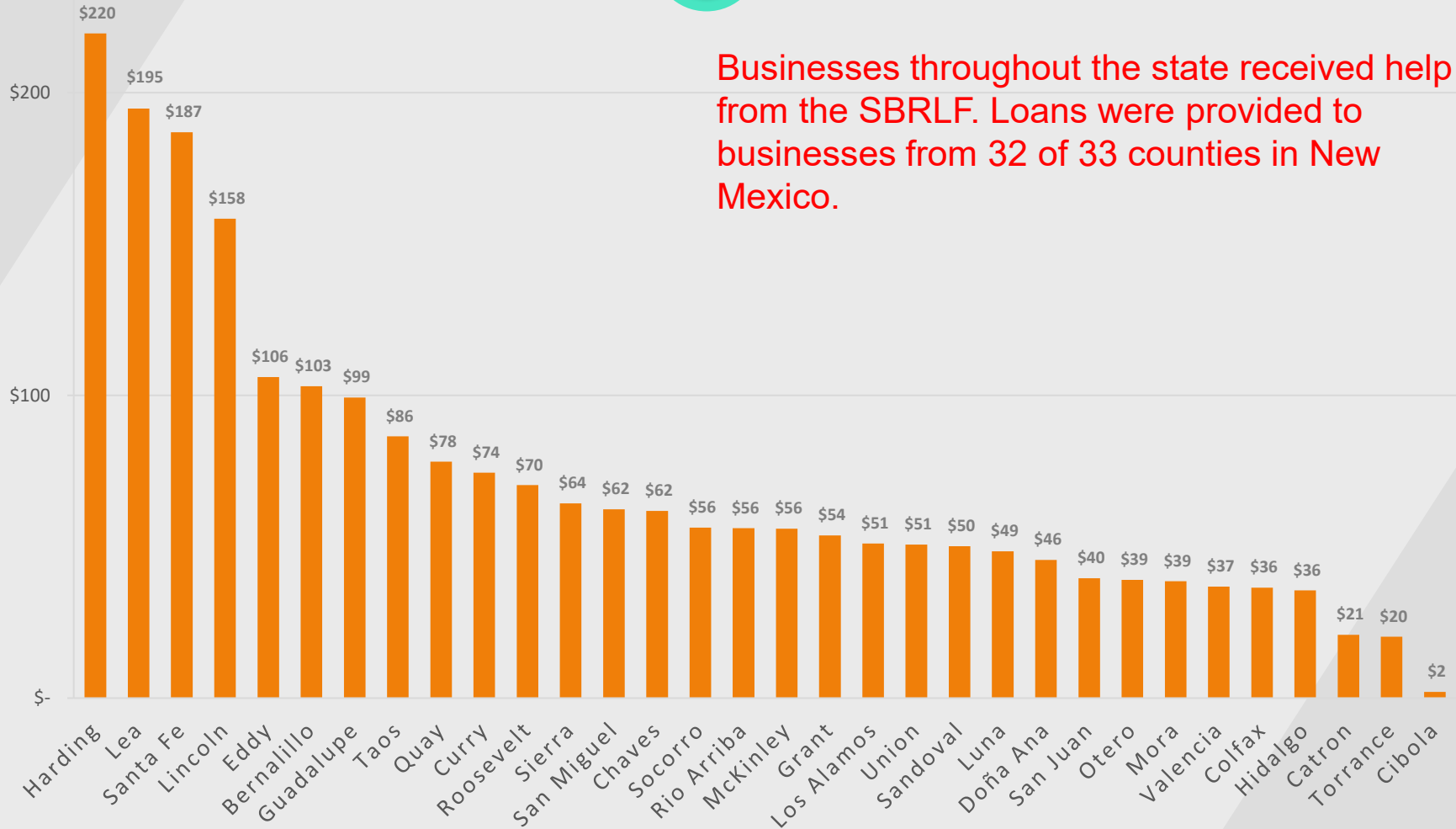
*-New Mexico small business owner*



# Loans per Capita by County

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Loan Amount Per Capita By County



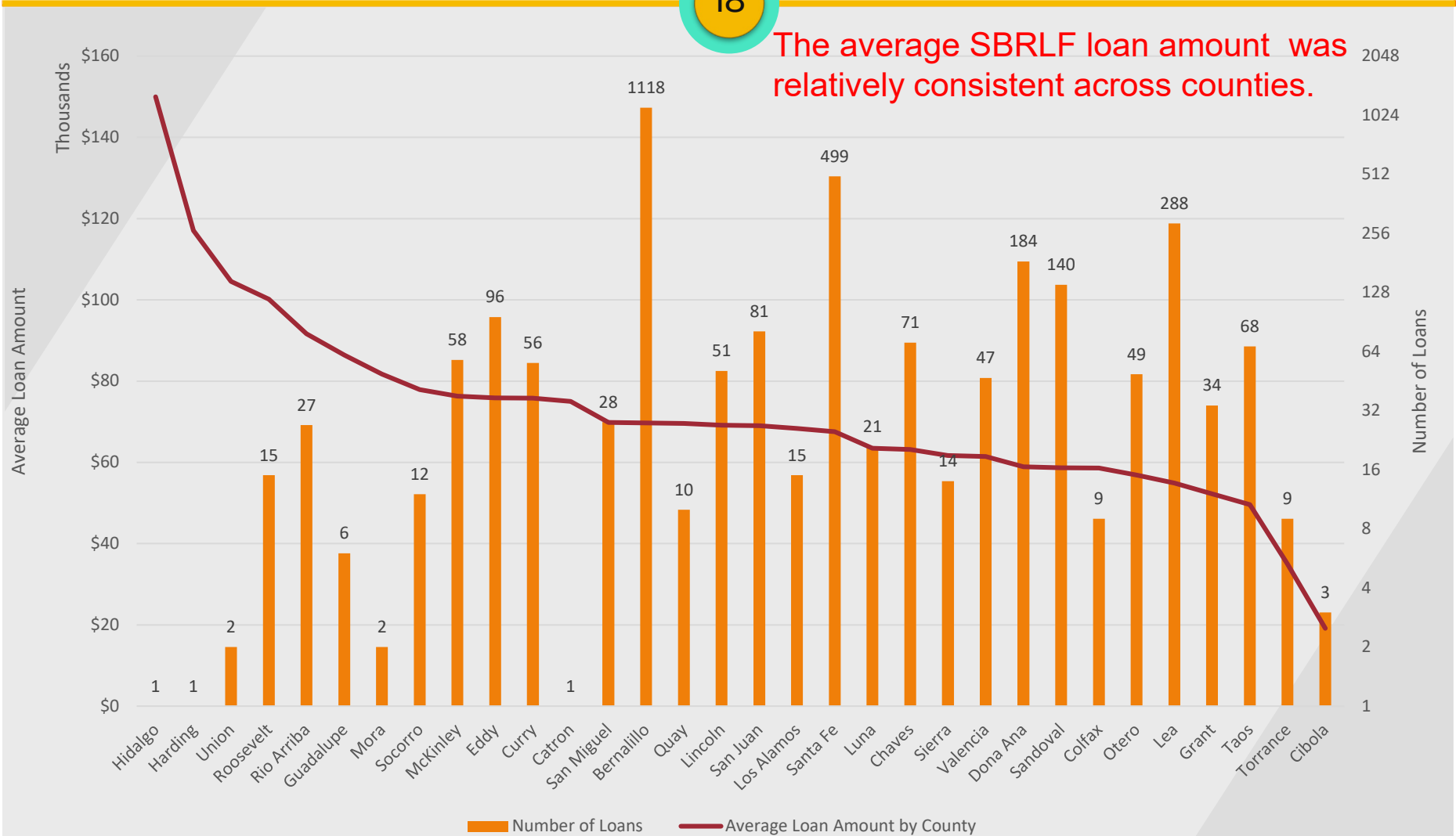
Businesses throughout the state received help from the SBRLF. Loans were provided to businesses from 32 of 33 counties in New Mexico.



# Average Loan by County

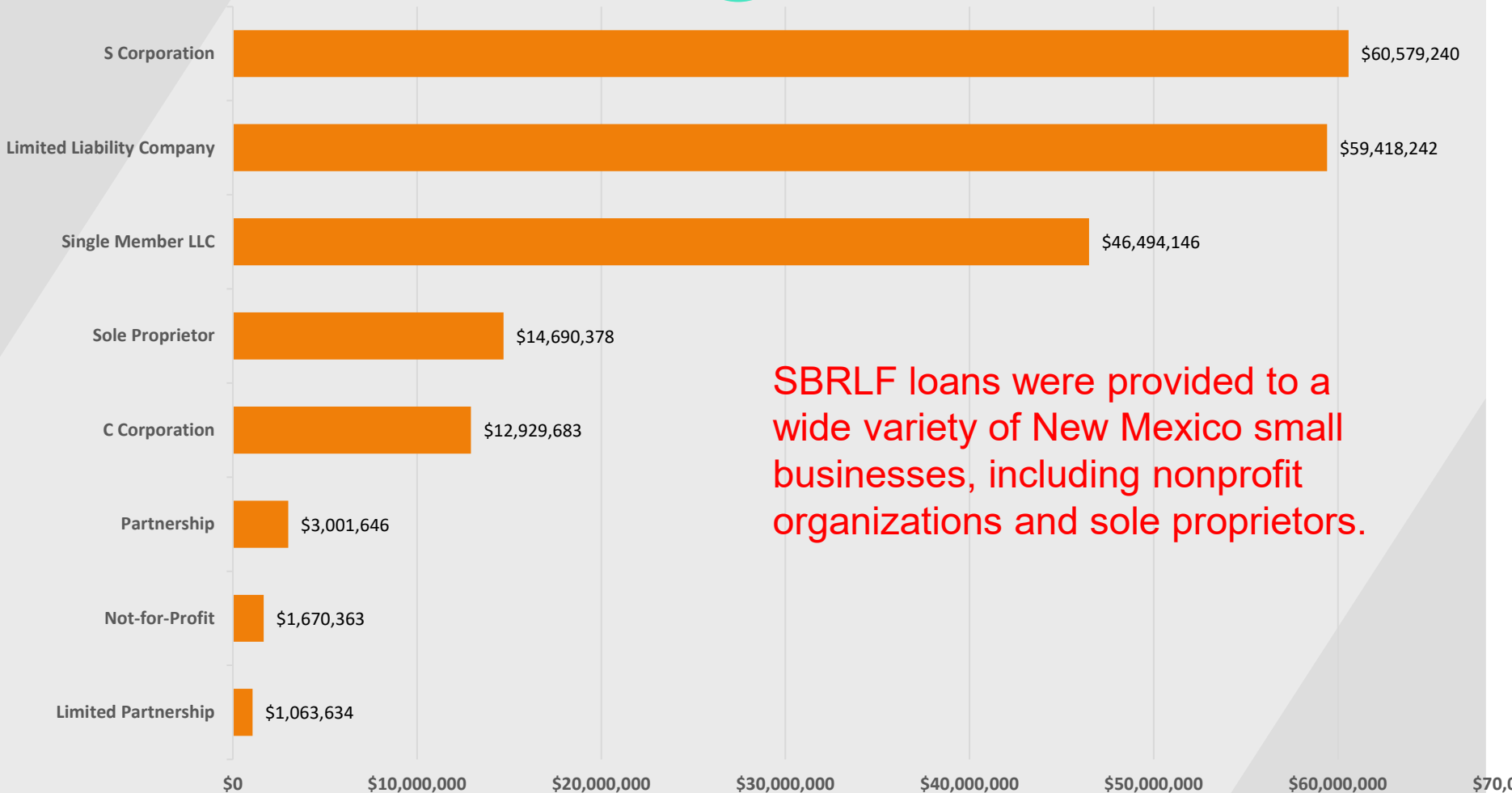
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The average SBRLF loan amount was relatively consistent across counties.



# Loans by Entity Type

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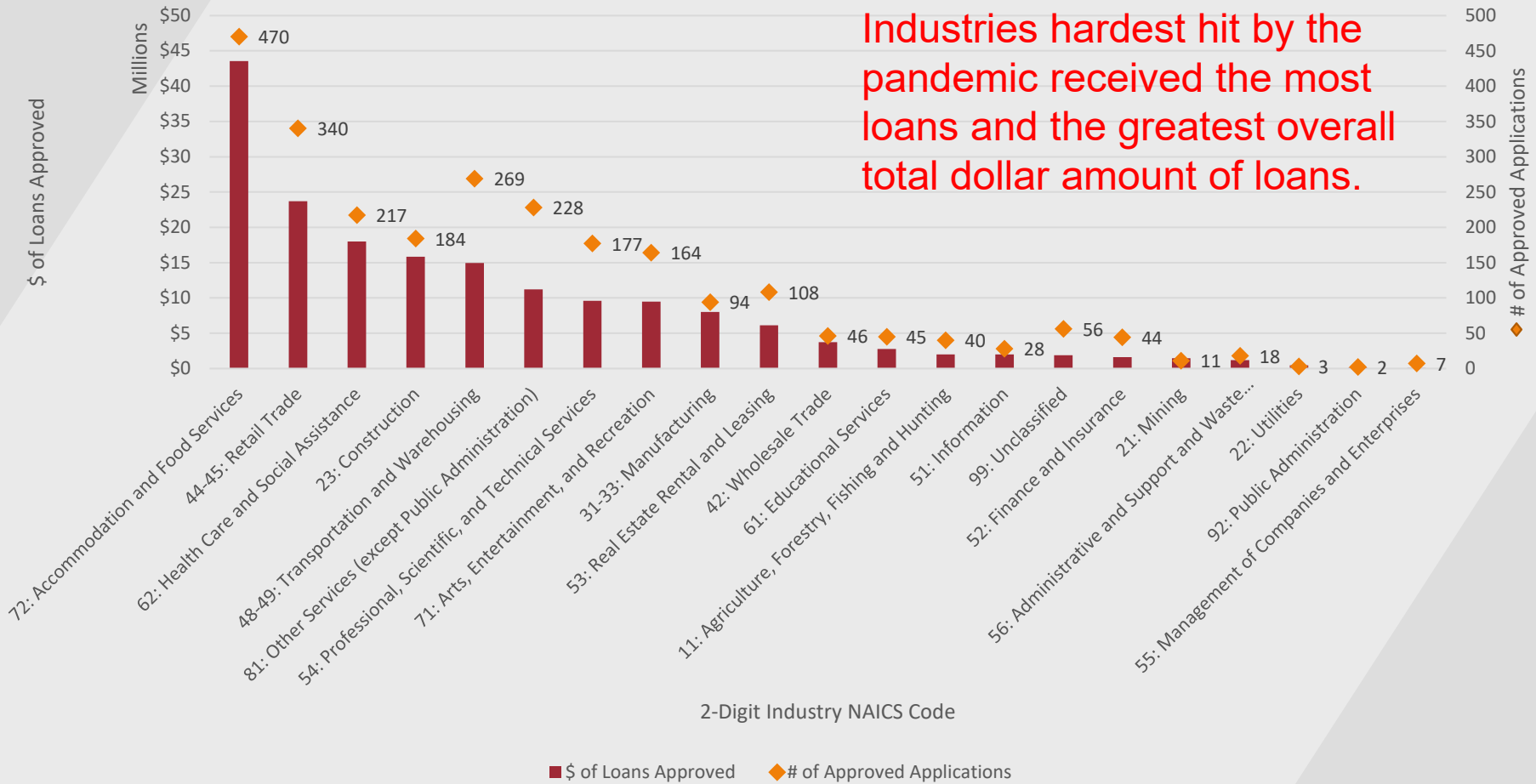


SBRLF loans were provided to a wide variety of New Mexico small businesses, including nonprofit organizations and sole proprietors.

# Industry Summary

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Total \$ of SBRLF Loans and Approved Applications by Industry



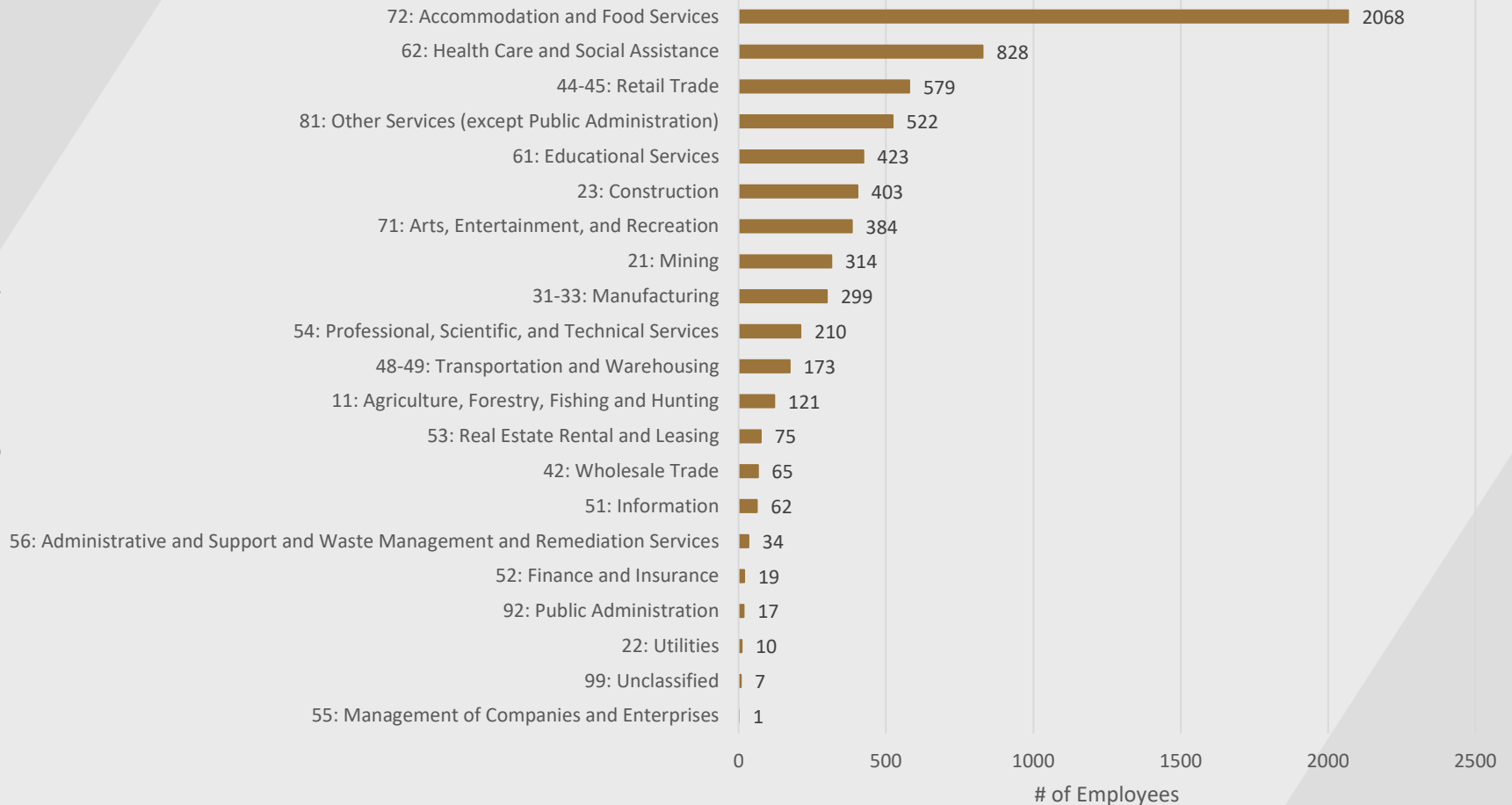
# SBRL Results



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### # of Employees as of 08/31/2023 by Industry

2-Digit NAICS Industry Code



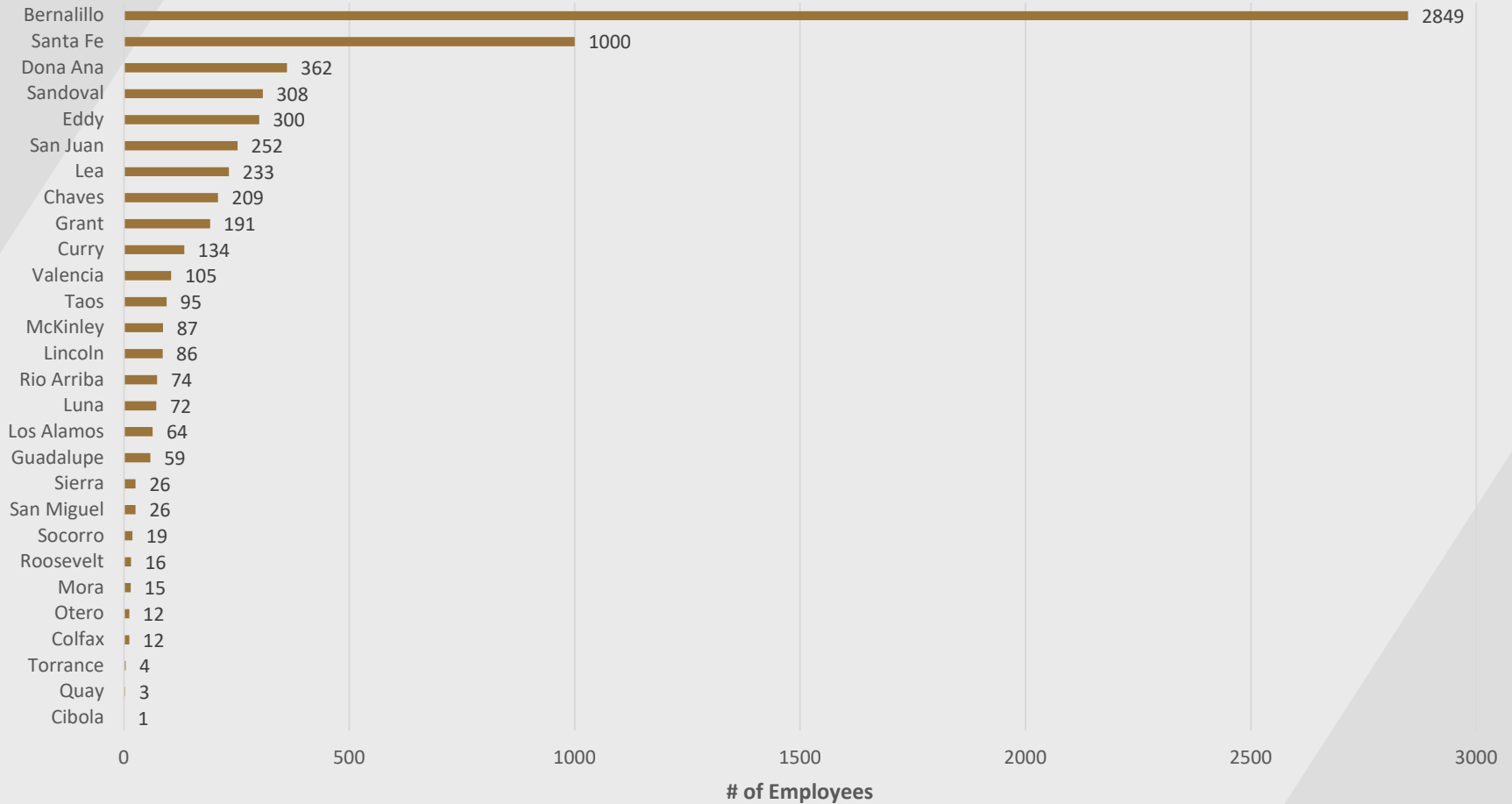
\*711 or 28% of borrowers reported employing 6613 employees August 2023

# SBRL Results



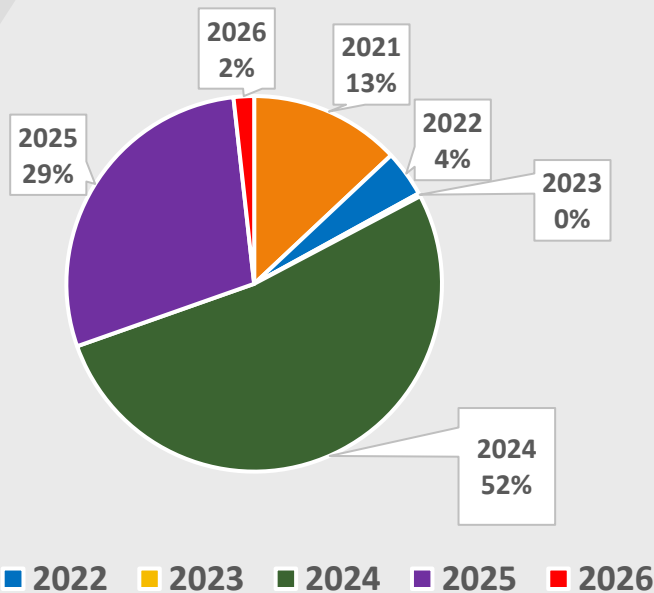
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# Employees as of 08/31/2023  
by County

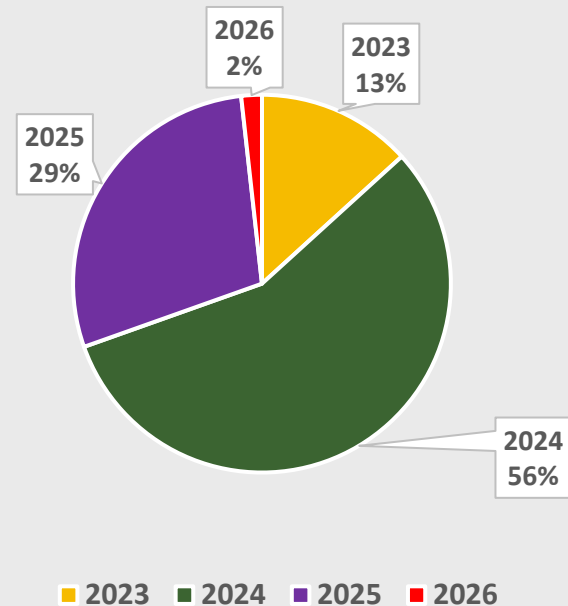


# Timing of Principal and Interest Payments

### First Interest Payments 2021-2026



### First Principal Payments 2023-2026



The first interest and/or principal payments for most borrowers will be due in calendar year 2024 or 2025. As a result, it is still too early to project loan default rates.

# Payment Performance and Monitoring



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- ◆ 107 borrowers have paid off loans for approximately \$7.2 million.
- ◆ NMFA has received \$10.5 million in principal payments through August 2023
- ◆ Four bankruptcies for a total of \$372,000 have been reported to date. NMFA uses a third-party credit monitoring service to automatically receive reported bankruptcies.
- ◆ Of the 500 businesses in the repayment period of interest and/or principal, 117 accounts are past due 90 days or more for an approximate total of \$120,000 in past-due payments
- ◆ As of June 30, 2023, NMFA has allocated \$20 million in allowance for doubtful accounts, which includes the following:
  - \$1.0 million in amounts outstanding from clients that have informed NMFA they are no longer in business
  - \$2.5 million in amounts outstanding from clients who are over 180 days past due
  - Remainder is 10% (\$16.5 million) of total principal outstanding of \$165 million



# Recovery Grant (LEDA) Overview



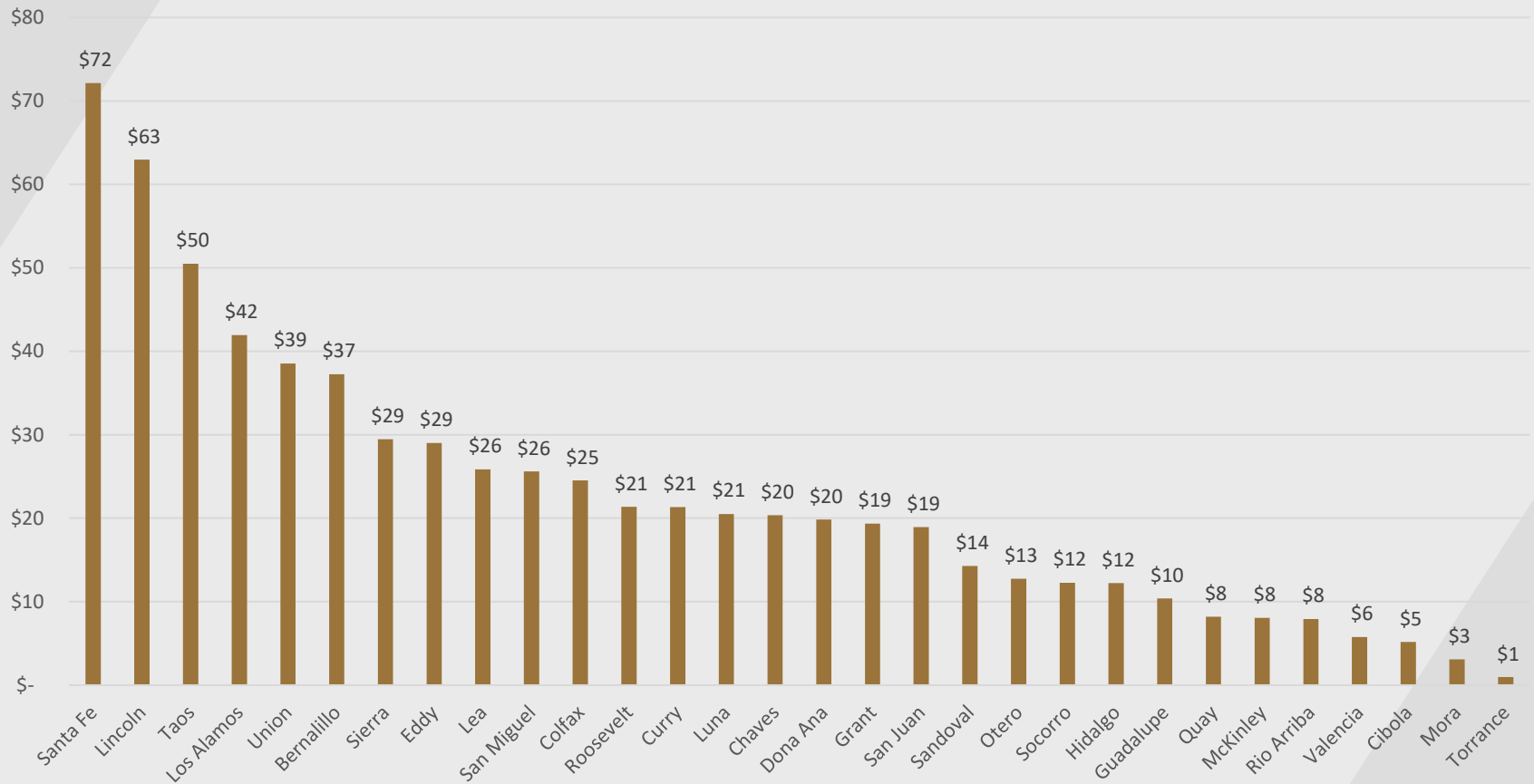
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- ◆ The LEDA Recovery Grant was created during the 2021 Legislative Session and provided \$200 million in general fund appropriation to the New Mexico Economic Development Department. NMFA was named as the administrator of the funds
  - Grants were made to businesses to reimburse rent, lease, or mortgage payments
  - Grants were sized to expected job creation. LEDA required that grantees submit significant documentation to substantiate the hiring of employees.
  - The tight labor market in target industries constrained both the demand for the program and the ability for grantees to receive full reimbursement of the grant
  - 1,861 grants totaling \$85.3 million were approved, and \$60.5 million of the grant reimbursements disbursed as of September 15, 2023 (approximately \$25.8 million in awards not disbursed)
    - 614 receive 25% of their award
    - 203 received 26% - 50% of their award
    - 192 received 51% - 75% of their award
    - 850 received greater than 75% of their award
  - Grantees reported wages totaling \$557.4 million and creating 3,951 full-time equivalent positions

# Recovery Grant (LEDA) Overview

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Funds Paid per Capita by County



# Statewide Economic Development Finance Act



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- ◆ The Statewide Economic Development Finance Act (“SWEDFA”) assigns powers and duties to the New Mexico Economic Development Department and the New Mexico Finance Authority 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 makes loans. EDRF is one several funds NMFA is authorized to operate for community and economic development purposes.
- ◆ Program Success has been limited by availability of capital
  - NMFA has relied on departmental partners and its own balance sheet to fund 50% of economic development program activity
  - Most programs have historically lacked available capital to lend; borrowers cannot rely on stable source of funding for economic development projects
- ◆ **Federal State Small Business Credit Initiative (“SSBCI”) provides great opportunity and capital for impact.**
- ◆ NMFA commissioned Next Street to research New Mexico small businesses and their funding needs to help inform how the State Venture Capital Program and SSBCI funding would be best utilized in New Mexico.

# State Small Business Credit Initiative



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- ◆ Congress recently reauthorized and expanded the Federal State Small Business Credit Initiative (“SSBCI 2.0”) 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 New Mexico Economic Development Department received an award of up to help inform how the State Venture Capital Program and SSBCI 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)
  - \$ 65 million to New Mexico Growth Fund (equity/venture capital funds)
  - 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 the Dept. of Treasury approved the addition of NMFA as a contracted entity to support NMEDD on administration of the New Mexico Growth Fund

- ◆ The Small Business Capital Landscape Research Report commissioned by NMFA found several gaps that NMFA can help banks, credit unions and CDFIs fill with the SSBCI 2.0 funding.
  - The found report found that Credit tightening since the great recession has been disproportionately felt by smaller businesses, and those in less wealthy areas.
  - A critical gap identified is a ‘no man’s land’ for companies in early and growth stages (revenues of \$0 to \$5 million) with capital needs between \$100,000 (larger than most CDFI-made microloans) and \$250,000 (smaller than most commercial bank loans)
- ◆ NMEDD and NMFA are working with local lending institutions including banks, credit unions and community development financial institutions (CDFIs) to design new lending products to meet capital needs of SEDI-owned businesses
- ◆ NMEDD and NMFA are developing additional strategies for New Mexico Growth Fund to enhance the impact of SSBCI 2.0:
  - Loan Participations – SSBCI 1.0 programs utilizing loan participations supported larger loan sizes and achieved 5.75 times leverage on capital deployed
  - Capital Access Program – Results nationwide from SSBCI 1.0 indicate capital access programs best support higher volumes of smaller loans in low-income communities