



***New Mexico Finance Authority
Legislative Oversight Committee***

**New Markets Tax Credit
Study Session**

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September 20, 2016



Finance New Mexico, LLC



Presentation Topics

- ◆ Background of New Markets Tax Credit Program
- ◆ Background of Finance New Mexico, LLC
- ◆ Economic Development Targets
- ◆ FNM Program and Application Process
- ◆ How Do NMTC's Work?
- ◆ Transaction Overview: La Clinica de Familia





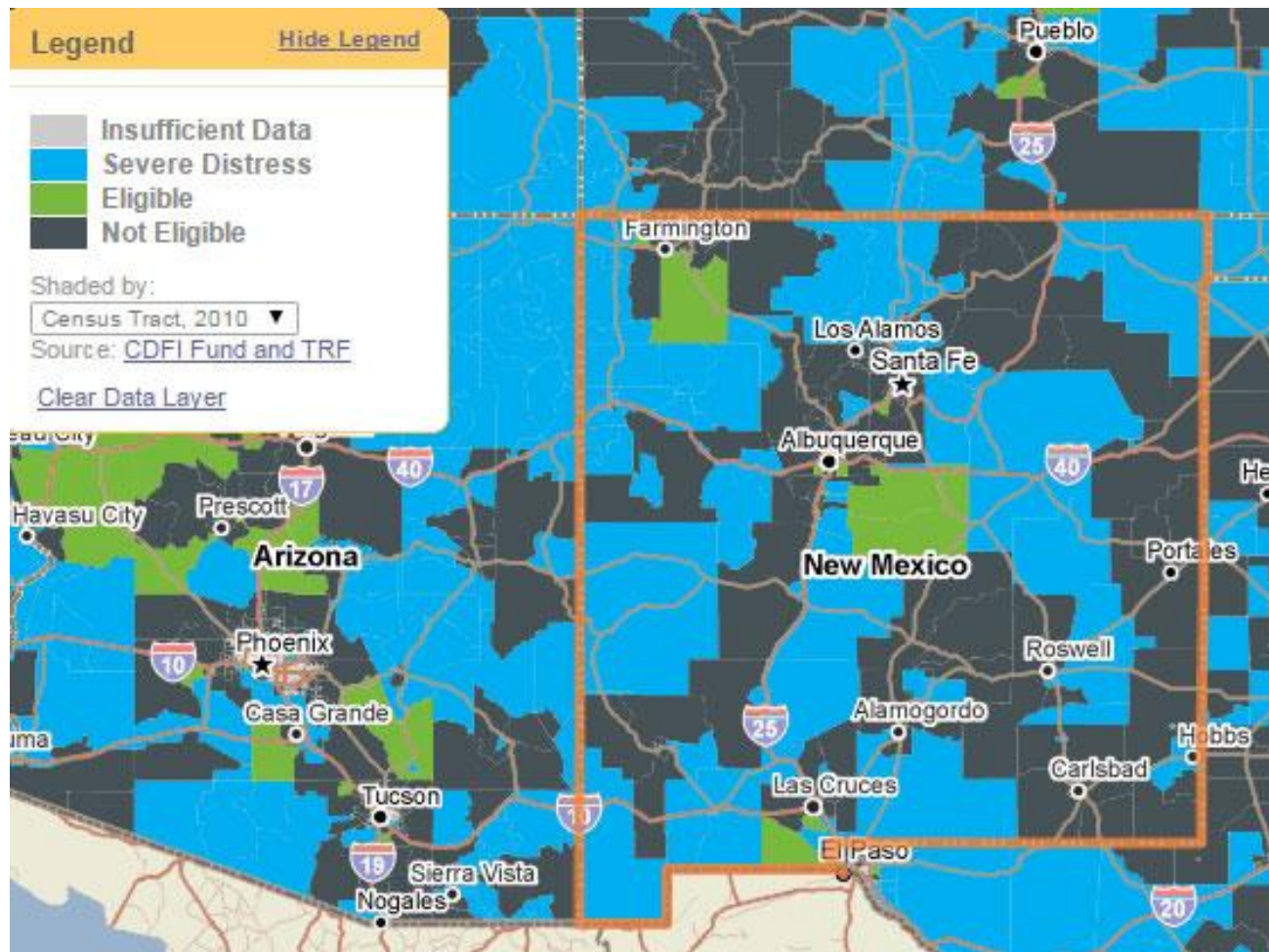
What are New Markets Tax Credits?

- ◆ Created December 21, 2000 as part of the Community Renewal Tax Relief Act of 2000
- ◆ Administered by the Community Development Financial Institutions (“CDFI”) Fund of the U.S. Treasury Department
- ◆ Allocation is awarded to certified Community Development Entities (CDEs) through annual competitive applications
- ◆ Award-winning CDEs can invest the NMTCs into qualifying projects, which include business creation/expansion, community facilities and commercial real estate
- ◆ Purpose of the program is to bring new investment capital to low income communities (defined by census tracts with at least 20% of the population living in poverty)





NMTC Eligibility in New Mexico





Finance New Mexico, LLC





Statewide Economic Development Finance Act

6-25-1 through 29 NMSA, 1978

In 2006, the Legislature explicitly authorized NMFA to participate in the New Markets Tax Credits through amendments made to SWEDFA which allowed NMFA to form Finance New Mexico, LLC

“In addition to other powers granted to the authority, the authority may form, operate, own or co-own one or more nonprofit or for-profit qualified community development entities for the purpose of participation in the federal New Markets Tax Credit Program, and pursuant to participation in the federal New Markets Tax Credit Program may:

- a) Apply and obtain one or more allocations of new markets tax credits;*
- b) Market and sell qualified equity investment;*
- c) Make qualified low-income community investments; and*
- d) Take all actions necessary or convenient to carry out the purposes of the qualified community development or participation in the federal program.”*





Finance New Mexico, LLC Overview

- ◆ May 25, 2006, NMFA Board of Directors approved creation of Finance New Mexico, LLC, (“FNM”) a limited liability company which results in taxation as a partnership, as allowed by the NMTC program. NMFA has twice approved amendments to the FNM Operating Agreement to make certain changes to the composition of the Advisory Board
- ◆ Finance New Mexico, LLC is owned 99% by the NMFA and 1% by New Mexico Community Capital (NMCC), a nonprofit Community Development Financial Institution that provides capital to high-potential businesses in emerging or underserved markets
- ◆ 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



Relationship of Entities

Certifies and Regulates

Community Development Financial Institutions Fund (CDFI)

Certifies CDEs, allocates tax credits, and oversees tax credit program

FINANCE NEW MEXICO, LLC

A certified Community Development Entity

New Mexico Finance Authority, 99% owner:

Managing Member/Fund Manager

New Mexico Community Capital, 1% owner

Finance New Mexico, LLC Investor Series I-XXV

Certified Subsidiary CDEs created for each transaction
(Sub CDEs XIV and XV were used to form FNM Service Company)

Finance New Mexico, 99% owner

Managing Member/Fund Manager

New Mexico Finance Authority, 1% owner

*Finance New Mexico, LLC
Advisory Board*
(nine members)

Advises on
program mission,
policies, project
selection and
community or
economic
development
targets.

Advisory Board
required by federal
NMTC Statute



NMTC Economic Development Goals

Finance New Mexico's Applications for NMTC Allocation sets targets for:

- ◆ Community impact and support
- ◆ Geographic diversity
- ◆ Filling financing gaps in rural and underserved areas of NM
- ◆ Increased wages and job creation
- ◆ Wealth creation and capital investment
- ◆ Environmentally sustainable outcomes
- ◆ More flexible loan structures to address “but-for” financings (“but-for” the NMTC financing, the project would not move forward)
- ◆ Not a grant program, but flexible debt





Finance New Mexico Program Targets

- ◆ Deploy New Markets Tax Credits to businesses that will create good, sustainable jobs for New Mexico, including key sectors:
 - ◆ High Tech
 - ◆ Value-Added Agriculture
 - ◆ Rural Economic Development
 - ◆ Community Development
- ◆ Finance New Mexico goals:
 - ◆ Investment to businesses in rural New Mexico that create jobs
 - ◆ Investment in rural community development
 - ◆ Investment in economic-based, job-creating businesses in urban NM
 - ◆ Investment in urban redevelopment projects that revitalize dilapidated areas





Finance New Mexico, LLC NMTC Program





Finance New Mexico Program

- ◆ Finance New Mexico's NMTC program is governed by NMFA-Board Approved Policies and Procedures, Economic Impact Policies and Credit and Lending Policies
- ◆ Finance New Mexico's activities also overseen by an Advisory Board that ensures the mission and requirements of the federal legislation continues to be met
- ◆ Finance New Mexico uses Competitive Application Process –allows applications to be prioritized rather than considered on a first come, first served basis
- ◆ NMFA Board takes all action in open meetings after full vetting by the NMFA Economic Development Committee





Roles and Responsibilities

- ◆ Role of New Mexico Economic Development Department
 - ◆ Determines whether projects serve an economic development purpose
 - ◆ Serves on Application Review Team which determines Economic Development Priority
- ◆ Finance New Mexico, LLC Advisory Board
 - ◆ Reviews and provides input on policies governing the program
 - ◆ Determines federal compliance with mission
- ◆ 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





Finance New Mexico's NMTC Team

Marquita Russel, Chief of Programs

John Brooks, Director of Commercial Lending

Rod McNamara, Senior Commercial Lender

Jolene Meadows, Commercial Credit Analyst

Theresa Garcia, Senior Administrative Assistant

Joanne Johnson, Senior Accountant

Daniel Opperman, General Counsel

Juan Torres, NM Economic Development Department





Finance New Mexico Program Advisors

- ◆ **Michael Ross, Baker Tilly**, Financial Advisor to Finance New Mexico – helps structure and negotiate transactions and provides financial modeling
- ◆ **Linda Schakel, Ballard Spahr**, Tax Opinion and CDE Counsel
- ◆ **Sutin, Thayer and Brown**, Leasehold and State Law Opinion
- ◆ **Novogradac**, Finance New Mexico Auditor

All advisors selected through competitive procurement process





FNM Advisory Board

Finance New Mexico, LLC, Advisory Board

- ◆ Members appointed by NMFA Board of Directors
- ◆ Reviews and provides input on policies governing the program
- ◆ Determines federal compliance with mission to serve low-income persons and low-income communities

Meets at least twice annually

Comprised of business and community leaders statewide

- | | |
|-------------------------------|---------------------------------------|
| ◆ Barbara Brazil, Albuquerque | ◆ Leroy Pacheco, Albuquerque (Chair)* |
| ◆ Jay Czar, Albuquerque* | ◆ Mary Kay Papen, Las Cruces |
| ◆ John McDermott, Santa Fe | ◆ Dan Silva, Albuquerque |
| ◆ Brian Moore, Clayton* | ◆ Jerry Walker, Farmington |
| ◆ Tom Overstreet, Alamogordo | |

**denotes LIC representative*





NMTC Policy Development

In 2008, the NMFA Board established three sets of policies to guide the New Markets Tax Credits Program. The Policies have been amended several time to adapt the program to the economy:

- ◆ Program Policies and Procedures
 - ◆ Act as NMFA's "rules" for program
- ◆ Economic Impact Policies
 - ◆ Used to prioritize applications for financial structuring
- ◆ Credit and Lending Policies
 - ◆ Governs how and under what terms Finance New Mexico will provide capital to borrowers in low-income communities





Economic Impact Criteria

Community Impact & Support

20 pts

- ◆ Quality of Life (10 points)
- ◆ Environmental Impact (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 & Employment

35 pts

- ◆ Types and Location of Jobs Created (10 points)
- ◆ Job Retention (5 points)
- ◆ Indirect Job Creation (5 points)
- ◆ Construction Jobs (5 points)
- ◆ Employee Benefits (5 points)
- ◆ High Wage Jobs (5 points)





Economic Impact Criteria (continued)

Business Location

10 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 criteria:

- ◆ Areas of High Distress (5 points)

Economic/Export Base Companies

10 pts

- ◆ A company that manufactures products or derives more than 50% 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





Lending and Credit Policies

Flexible or Non-Traditional Lending Criteria

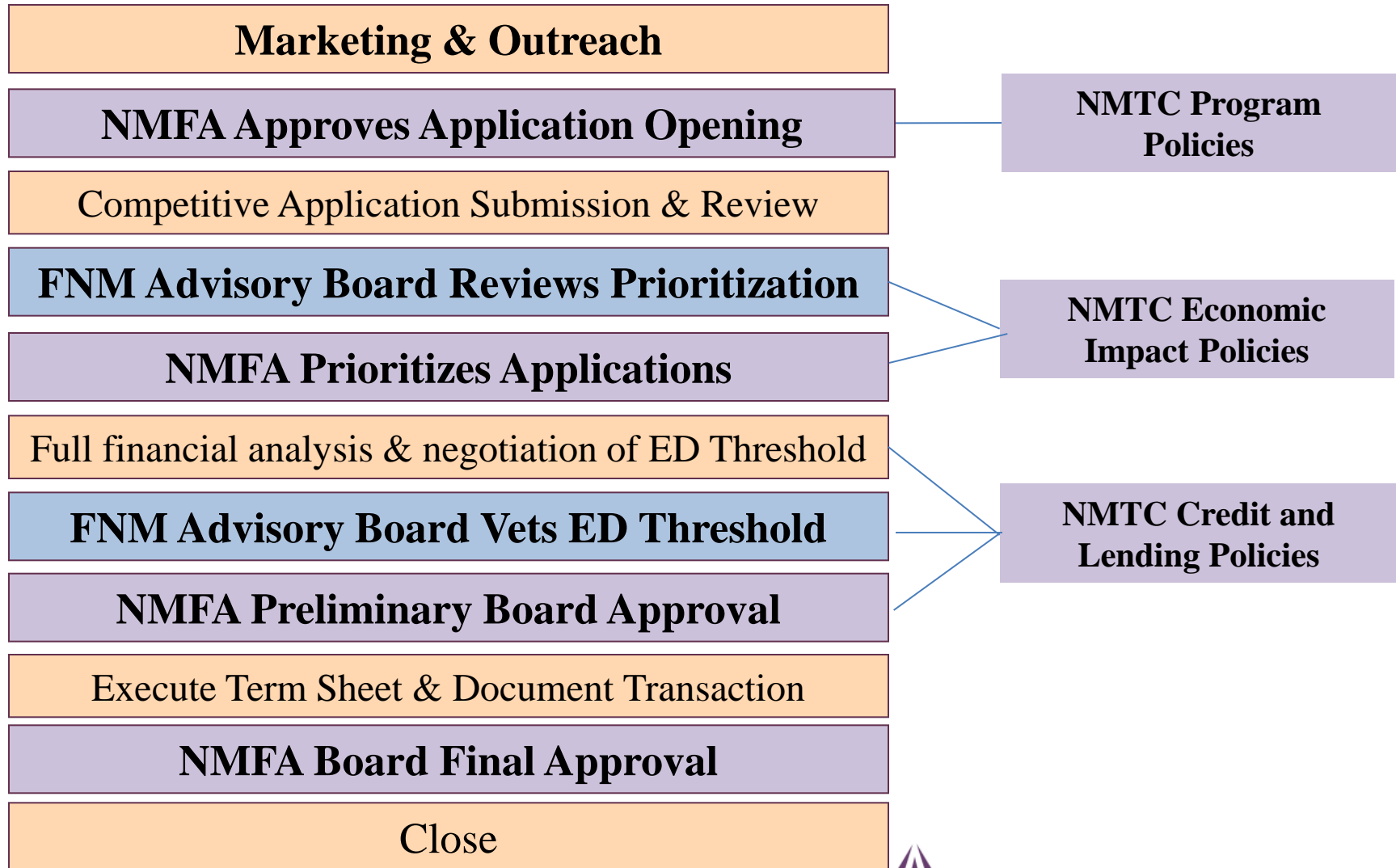
- ◆ Subordinated debt
- ◆ Equity or debt with equity features
- ◆ Below market interest rates
- ◆ Non-traditional forms of collateral
- ◆ Higher than standard loan to value
- ◆ Less than standard loan loss reserves
- ◆ Lower than standard origination fees
- ◆ More flexible borrower credit standards
- ◆ Longer than standard amortization periods
- ◆ Longer than standard period of interest only loan payments

Each loan made by Finance New Mexico, will need to be structured with 5 of these criteria if the interest rate is not 50% below market





FNM Application Process Guided by Policy





Preliminary Approval

Decision to extend credit to applicant

- ◆ Cash-flows adequate to support debt?
- ◆ Collateral sufficient to secure debt?
- ◆ Market sufficient to support business & growth?
- ◆ Management experience and abilities sufficient to operate project?

Establishes the Economic Development Threshold

- ◆ Vetted through the Finance New Mexico Advisory Board

Allocation of tax credits, subject to acceptable terms and conditions negotiated by and between Finance New Mexico, applicant, leverage lender and the NMTC investor





Final Approval

NMFA policy provides limited time after Preliminary approval to execute NMTC financing

- ◆ 90 days to negotiate final terms
- ◆ 60 days to document transaction
- ◆ Board can approve extensions for projects showing good faith efforts in negotiation

Board approves resolution which authorizes CEO to execute several NMTC documents and approves certain final documents

- ◆ Final Term Sheet which contains final terms
- ◆ Amended and Restated Operating Agreement (admitting Investor Member and adding negotiated deal points)
- ◆ Indemnification Agreement
- ◆ Assignment of NMFA's Interest in subsidiary CDE to NMTC investor



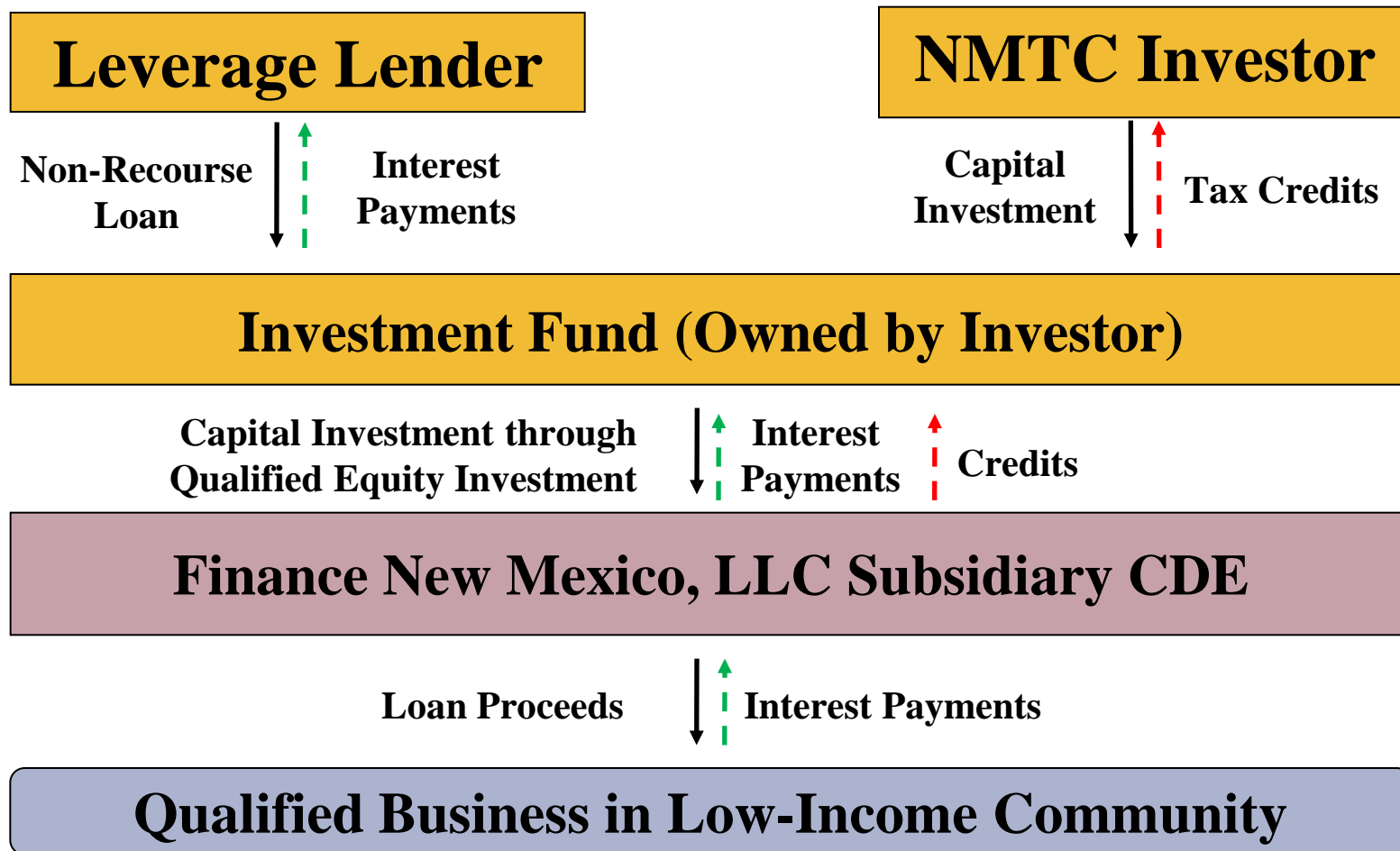


How Do NMTCs Work?





Basic NMTC Structure





NMTC Overview

From a Borrower's perspective:

- ◆ NMTCs may - but typically do not - finance 100% of the project costs
- ◆ NMTC is not a grant, but a low-cost loan that funds about 25% of allocation requested
- ◆ The borrower is responsible for identifying and securing a source of “leverage” debt to fund the approximately 75% of the allocation requested
- ◆ NMTCs fill a variety of financing gaps:
 - ◆ Temporary gaps may occur with a new project or expansion and flexible loan repayment terms allow the project to be constructed and stabilize prior to repaying loans
 - ◆ Permanent gaps may result from the cost of asset being greater than the value of asset. Permanent gaps frequently occur with historic renovations
- ◆ Often a substantial amount of the loan is “cancelled” at the end of the Compliance Period



NMTC Overview

From an Investor's perspective:

- ❖ Credit to encourage private investment (usually by banks) in low-income communities – typically in the Investor's Community Reinvestment Act footprint. Investor is the primary driver in the transaction as their funding is truly the “gap” money
- ❖ The federal tax credit is earned over 7 years and is equal to 39% of the allocation amount. The credits are purchased at closing at a discount and yields an after tax return of approximately 8% - 10%
- ❖ Utilizes the leveraged funds to increase the amount of credit that will flow through the transaction and stimulate the overall amount of NMTC equity paid in
- ❖ Main concern is to avoid recapture. Will want forbearance from senior lenders against foreclosure to avoid redeployment risks
- ❖ Frequently acts as leverage lender, but not always





NMTC Overview

From a Leverage Lender's perspective:

- ❖ Leverage lender bears economic risk in the event of non-performance
- ❖ Typically new or existing senior lender, subordinated note-holder or equity investor (can be a combination of multiple sources)
- ❖ Needs to execute forbearance agreement indicating they will not foreclose for the length of the NMTC investment
- ❖ No amortization of loan for length of NMTC investment
- ❖ Agrees to lend funds to another QALICB if existing QALICB ceases to exist during the compliance period
- ❖ Collateral consists of an assignment of LLC member interests versus direct assignment of borrower collateral



New Markets Tax Credit Transactions

Each NMTC deal has two basic risks to FNM:

Business Risk:

- ◆ Cash-flows adequate to support debt?
- ◆ Collateral sufficient to secure debt?
- ◆ Market sufficient to support business & growth?
- ◆ Management experience and abilities sufficient to operate project?

New Markets Risks:

- ◆ Redeployment risks
- ◆ Reporting and other requirement to maintain Qualified status
- ◆ Indemnification/Recapture risk





La Clinica de Familia Overview





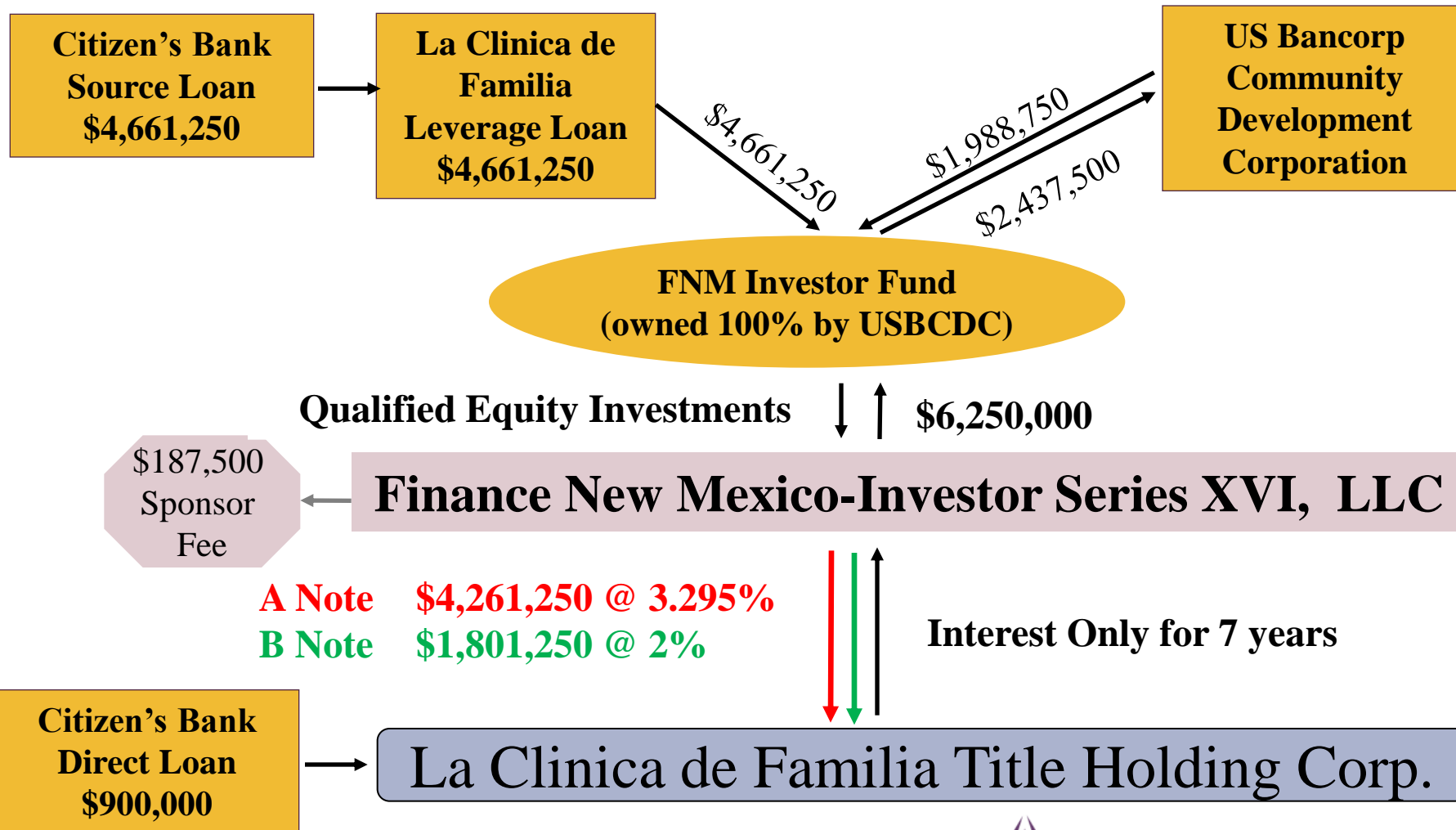
La Clinica de Familia: Approval

- ◆ On August 25, 2016, the NMFA Board gave its final approval for a \$6.25 million NMTC transaction for the Las Cruces Central Cervantes Complex
- ◆ Proceeds will finance the acquisition, renovation and equipping of a 43,000 sq. ft. medical services complex and will fund legal and closing fees associated with the NMTC transaction
- ◆ The NMTC loans are secured by a deed of trust on the property subject only to a \$900,000 direct loan for the project made by Citizen's Bank of Las Cruces
- ◆ The project is located in downtown Las Cruces and is considered highly distressed under the NMTC program
 - ◆ 42.61% of Median Family Income
 - ◆ 37.3% Poverty Rate
 - ◆ 13.8% Unemployment Rate
- ◆ The NMTC financing is being combined with the transfer of real estate made by Las Cruces through its LEDA ordinance





La Clinica de Familia





La Clinica: Community Development Threshold

- ◆ At the end of seven years, FNM will be paid an Exit Fee equal to value of the “B” note (\$1,801,250) less amounts credited for timely reporting and La Clinica's performance against certain negotiated targets, reviewed by FNM Advisory Board and approved by the NMFA, less up to \$250,000 in legal fees attributable to the NMTC transaction
- ◆ Finance New Mexico used targets established by the City of Las Cruces for its LEDA land transfer through in determining La Clinica's goals:
 - ◆ Job creation: 55 jobs over 7 years— 25% of the B1 Note (\$450,312.50)
 - ◆ Provide medical, dental, mental health care in modern facility - 25% of the B1 Note (\$450,312.50)
 - ◆ Timely Reporting: 20% of the B1 Note (\$360,250)
- ◆ As structured, if La Clinica meets the goals and timely reports for 7 years, it will pay Finance New Mexico \$290,366 on the \$1,801,250 "B" Note





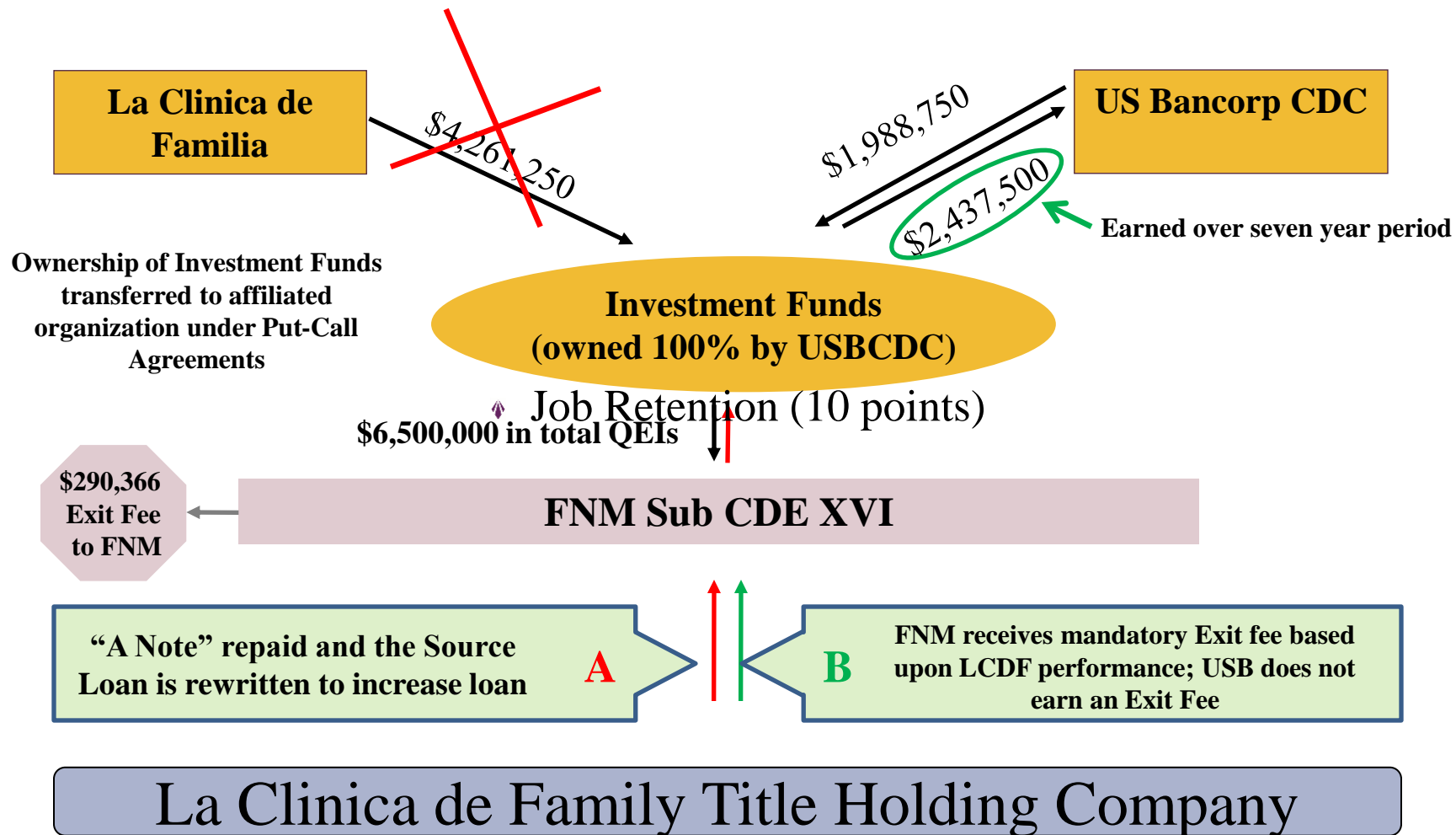
La Clinica: Unwind

- ◆ NMTC leverage model is predicated on the assumption that the NMTC tax credit purchaser/investor will give up its interest in the Investment Fund after it earns its tax credit
- ◆ The Investment Fund's only asset is its interest in the Sub-CDE
- ◆ After the "A" note is refinanced, the Sub-CDE's only asset remaining is the payments arising from the "B" note
- ◆ Federal law doesn't allow the Investor to promise the sale or "Put" of its interest. If Investor doesn't exercise its Put Option, then an affiliate of the borrower may exercise its option to buy or "Call" the investment at fair market value
- ◆ Fair market value is determined at the end of the 7-year compliance period and is based on the then-present value of the stream of revenues remaining on the "B" note
- ◆ A form of the Put/Call Agreement is negotiated and finalized at the closing of the NMTC transaction





La Clinica de Familia: Unwind





Finance New Mexico NMTC Transactions

FNM Sub-CDE	Funding Date	Project	Source Lender/Leverage Lender	Investor	Location	NMTC Allocation	Status
Total Finance New Mexico NMTC Allocation						\$ 201,000,000	
I	12/31/2008	SCHOTT Solar, Inc.	--/Schott North American	US Bancorp	Albuquerque	\$ 15,500,000	Unwound
II	10/5/2009	Savoy Travel Center	--/Virtual Realty Enterprises	US Bancorp	Deming	\$ 16,500,000	Redeployed
II	6/25/2013	QWP Holdings, LLC	--/Virtual Realty Enterprises	US Bancorp	Kansas City, MO	\$2,940,000*	Current
III	11/12/2009	Hotel Parq Central	--/Los Alamos National Bank	US Bancorp	Albuquerque	\$ 6,784,540	Current
IV	11/12/2009	Hotel Parq Central	--/Los Alamos National Bank	LANB	Albuquerque	\$ 7,061,460	Current
V	7/16/2010	Pros Ranch Market	--/Bank of Albuquerque	US Bancorp	Las Cruces	\$ 12,500,000	Current
VI	9/24/2010	Vitality Works (Closed 9-19-2011)	--/US Bank	US Bancorp	Albuquerque	\$ 8,000,000	Current
VII	10/7/2011	Molina Healthcare Data Center	--/Molina Healthcare, Inc.	Wells Fargo	Albuquerque	\$ 10,000,000	Current
VIII	6/29/2012	4Points, LLC	--/Laguna Pueblo	US Bancorp	Laguna	\$ 23,000,000	Current
IX	6/29/2012	Empresa Development, LLC	--/Laguna Development Corporation	US Bancorp	Laguna	\$ 10,000,000	Current
X	8/31/2012	Friedman Recycling of Albuquerque	Alliance Bank/Friedman Recycling Company	US Bancorp	Albuquerque	\$ 15,000,000	Current
XI	9/6/2012	TMS Gallup I, LLC (Closed 9-10-2013)	--/US Bank	US Bancorp	Gallup	\$ 8,000,000	Current
XII	9/17/2013	4Points Laguna, LLC	--/Laguna Pueblo	US Bancorp	Laguna	\$ 8,000,000	Current
XIII	12/31/2013	Stauroilite Resources, Inc.	Wells Fargo/Presbyterian Medical Services	Wells Fargo	Farmington/ Socorro	\$ 11,000,000	Current
XVI	12/16/2015	Forward Funded QEI - LCDF Title Holding Co	Citizens Bank of Las Cruces/La Clinica de Familia	US Bancorp	Las Cruces	\$ 6,250,000	Pending
XVII	12/16/2015	Forward Funded QEI - TMCf	Pending	US Bancorp	Tucumcari	\$ 4,654,000	Pending
XVIII	12/16/2015	McCurdy QALICB LLC (Closed 8-24-2016)	Clearinghouse CDFI/McCurdy Master Tenant	US Bancorp	Espanola	\$ 8,500,000	Current
XIX	12/16/2015	Delta NM Investors, LLC (Closed 6-30-2016)	Enterprise Bank/Delta NM ALL, LLC	US Bancorp	Albuquerque	\$ 7,750,000	Current
Total Closed Deals to Date (excluding Series II Redeployment)						\$ 178,500,000	
TOTAL AVAILABLE ALLOCATION						\$ 22,500,000	

