New Mexico FINANCE AUTHORITY

2009 New Mexico Infrastructure Finance Conference
Presentation on

Smart Money Initiative, New Markets Tax Credits and ARRA Bonding Mechanisms

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Finance New Mexico, LLC

Statewide Economic Development Finance Act

Enacted in **2003**, SWEDFA ***partners*** the **New Mexico Finance Authority** and the **New Mexico Economic Development Department** to help stimulate economic development by providing greater access to capital in rural and underserved areas of the state.

Smart Money Loan Participation Program is the first program implemented under SWEDFA.

Smart Money: Increasing Access to Capital

A public-private partnership developed to provide businesses with below-market financing through their local banks

Smart Money Loan Participation Program:

- Utilizes relationships & lending expertise of local banks
- Shares risk with banks
- Provides interest rate buy-downs for businesses
- Focuses on creating greater access to capital in rural and underserved areas
- Prioritizes businesses that create jobs -- especially high wage jobs

Smart Money Terms and Conditions

NMFA may participate in up to 49% of a bank originated loan

NMFA share will generally not exceed $2 million – targeting $50,000 of Smart Money for each *new* job created

Amortization Periods:

- up to 25 year amortization for land and buildings
- up to 15 year amortization for machinery and equipment
- up to 3 year amortization for working capital

Flexibility in structuring

Below-Market Interest Rates – pegged to Treasuries and fixed

Shares project risk with participating bank

New Markets Tax Credit Program

- 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 Administers the NMTC Program
  - Certifies Community Development Entities ("CDEs")
  - Allocates NMTCs
  - Monitors CDEs
- ***Goal:*** Bring New Investment Capital to Eligible Low-Income Rural Communities

Finance New Mexico's Goals

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

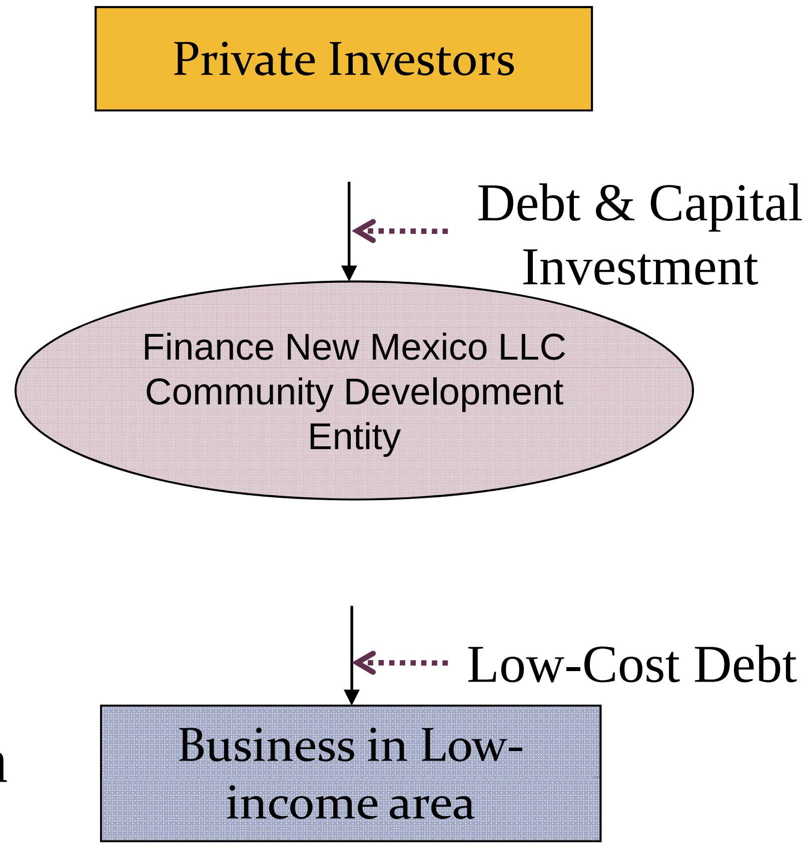
- Not a grant program, but flexible debt

Policies form basis of transparent process with discretion in project selection

NMTCs: How do they work?

Finance New Mexico, LLC uses the **capital investment from private institutions *and* conventional lenders** to provide low-cost loans with flexible structures to businesses in low-income communities

Finance New Mexico's $110 million allocation is based upon total investment in businesses (both debt and cash provided by NMTC investor) and is the figure against which the tax credit is calculated



Who are the Players?

Finance New Mexico – a for-profit subsidiary created and managed by the NMFA

Created for New Markets Tax Credit purposes

Policy oversight by Finance New Mexico Advisory Board

Staffed by New Mexico Finance Authority

Why NMTC?

Stimulate economic development by providing additional capital to rural and underserved parts of the state.

Job creation.

Who are the Players?

A Business from your community

Why NMTC? The ultimate benefit is that financing gaps are filled in order to move the project forward

Temporary gaps are typically filled with a product that is similar to mezzanine financing

- After the 7 year compliance period, the NMTC project is projected to be able to afford refinancing the NMTC-enhanced loans and repay loan to Finance New Mexico

Small permanent gaps may be filled with a portion of the tax credit capital (ability to repurchase loan based upon company's economic development performance)

Who are the Players?

Traditional Lender (Your Community Bank)

Why NMTC? NMTC credits are turned into cash and the cash is provided as subordinated debt to the business which provides:

- A stronger project from additional cash
- Subordinate debt carried at 2% interest
- Seven year subordinate loan term
- Increased loan production
- Community Reinvestment Act credit

NMTC Investor (Found & Negotiated by NMFA)

Why NMTC? Yield.

Who Gets What?

- **Investors** gets tax credits equal to **39%** of the total amount invested by CDE over a **seven year** period:
  - **5%** in the first **three** years
  - **6%** for the last **four** years

  structured in a manner that typically generates an Internal Rate of Return of 10% for the investor
- At the end of the 7-year period, the borrower refinances both the conventional loan and NMTC-proceeds loan
- NMFA is able to relend the money to other businesses without the NMTC constraints and restrictions

Borrower Gets Great Financing Terms

- Subordinated debt
- 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

How Did ARRA Help Economic Development?

- Creates new types tax-exempt bonds and expands existing uses
- New Recovery Zone Facility Bonds
- Modifies existing tax regulations and eases restrictions

Not grant programs

- The funds needed for construction projects are generated by the issuance of tax-exempt or tax-credit bonds
- Regardless of the bond program, only projects that are able to demonstrate ability to repay the debt will qualify
- NMFA has requisite statutory authority to issue bonds on behalf of local governments as well as private entities, **but will need to establish rules policies to implement their use**

ARRA's New and Enhanced Finance Tools

ARRA expands the investor base for municipal debt by attracting new bond purchasers through new tax-credit bonds and creating new tax-exempt bond programs

- **Build America Bonds**
- **Recovery Zone Economic Development Bonds**
- **Recovery Zone Facility Bonds**
- "New" Clean Renewable Energy Bonds
- **Qualified Energy Conservation Bonds**

All bonds must be issued by December 31, 2010

More investors helps lower the overall interest paid on bonds

Build America Bonds

Program Purpose and Recovery Act Amounts:

- New program created by ARRA
- No volume limitation
- Only governmental purpose and use including universities
- Eligible projects include water and wastewater projects, buildings, infrastructure, roads, etc.

Impact and Investments:

- State and local governments may elect to issue Build America Bonds in lieu of tax-exempt governmental bonds
  - These issuers may receive a rebate from the IRS of 35% of the interest paid on the bonds in lieu of the credit being provided to bondholders
- Bonds issued through traditional methods – competitive and negotiated bond issuances. Only the bond purchaser changes.

Recovery Zone Bonds

What is a Recovery Zone? It is an area designated by issuer (county or large municipality) because of:

- "significant poverty, unemployment, rate of home foreclosures, or general distress,"
- or economically distressed because of military base closure or realignment, or
- any area for which a designation as an Empowerment Zone or Renewal Community is already in effect

Recovery Zone Economic Development Bonds

Program Purpose and Recovery Act Amounts:

- New category of tax-credit bonds (a type of Build America Bonds)
- Amount will be allocated to states in proportion to their respective 2008 job losses and then sub-allocated to large counties and municipalities (population of more than 100,000) on the basis of relative job losses

Impact and Investments:

- Governmental bonds used for governmental purpose
- Finances development within a Recovery Zone, including construction of public facilities as well as job training or education
- Issuers of Recovery Zone Economic Development Bonds with an advance tax credit equal to 45% of the interest on the bonds

Recovery Zone Facility Bonds

Program Purpose and Recovery Act Amounts:

- New category of tax-exempt private activity bonds
- Amount to be allocated to states is in proportion to their respective 2008 job losses and then sub-allocated to municipalities with populations of more than 100,000 and counties on the basis of relative job losses

Impact and Investments:

- Bond proceeds fund capital projects in recovery zones for businesses that typically would not qualify for tax-exempt financing (virtually any business qualifies: distribution centers, hotels, research parks, etc)
- Residential rental businesses and "sin" businesses not eligible
- Private Activity Volume Cap is not required

Qualified Energy Conservation Bonds

Program Purpose and Recovery Act Amounts:

- $800 million to $2.4 billion (nationally) for calendar years 2010 & 2011

Impact and Investments:

- Created in 2008, allows large local governments (greater than 100,000) and tribal governments to issue tax-credit bonds to finance:
  - improvements that reduce energy consumption in publicly owned buildings
  - implementation of green community programs, green technologies & infrastructure
  - electricity production form renewable energy resources for rural areas
- ARRA expands the use of QECBs to allow governments to make loans to individuals for green community programs e.g., loans for homeowners to retrofit their homes with energy conservation products

Financing your future, believing in New Mexico

Contact New Mexico Finance Authority about financing an economic development project in your area:

- ***Smart Money Initiative***:

NMFA partners with your community bank to provide below-market financing to businesses

Contact: SmartMoney@NMFA.net

- ***New Markets Tax Credits:***

Using federal tax credit program to bring new investment into New Mexico

Contact: NMTC@NMFA.net

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