

Public Lending Programs	Public Project Revolving Fund Loan Management Policies	Original Effective Date: 10/25/2005
		First Revision: 8/29/2024
		Last Revision: 10/31/2024



**PUBLIC PROJECT REVOLVING FUND  
LOAN MANAGEMENT POLICIES**

*This Policy was adopted on October 31, 2024, by the Board of Directors of the New Mexico Finance Authority, a public body politic and corporate, separate and apart from the State of New Mexico constituting a governmental instrumentality, created by the New Mexico Finance Authority Act, Section 6-21-1 et. seq., NMSA 1978.*

**I. SUMMARY**

These Loan Management Policies set forth the criteria by which the New Mexico Finance Authority (“NMFA”) may make Public Project Revolving Fund (“PPRF”) loans to qualified entities.

These Loan Management Policies shall be implemented by the NMFA Board and may, at times, be waived by the Board if the Board determines that a deviation from its adopted policies is necessary.

**II. PROCEDURES**

**A. Application Forms**

The NMFA will provide applications to its borrowers based upon the type of project seeking financial assistance. The information to be supplied by prospective borrowers through completion of the application form is designed to provide NMFA staff with sufficient information to make consistent lending and project assessments, as well as recommendations to NMFA approving committees and its Board.

**B. Requirements for Complete Applications**

PPRF borrowers shall submit applications provided by NMFA to apply for funding for specific Public Projects. NMFA staff shall deem an application complete if it:

1. is signed by the highest elected official or authorized officer of the entity;
2. cites a specific loan amount being sought and a description of the proposed use or uses of the loan;

3. identifies a specific, legally permissible source of funds for repayment of the proposed loan;

4. lists all of the outstanding senior, parity or subordinate indebtedness secured by the proposed revenue stream, including bonds, lease purchase agreements and other loans, by name and principal amount (both the original principal amount and the currently outstanding amount) and the debt service schedule associated with each indebtedness;

5. contains a description of the Public Project or Public Projects to be financed or refinanced, including:

- a. description of the scope of work of the Public Project;
- b. estimated cost of the Public Project; and

6. target date for the initiation of the Public Project and the estimated completion date.

7. additional revenue pledge or project type specific requirements as detailed in the Appendix.

### **C. Financial Statement Requirements**

1. Underwriting Process. The underwriting process will include review of the Applicant's audited financial reports for the most recent three (3) years obtained from the New Mexico Office of the State Auditor or, where the Applicant that is subject to the State Audit Act but is not required to submit such reports to the State Auditor, that Applicant must provide the most recent three (3) years of internally prepared financial statements. Applicants that are subject to the State Audit Act and lack their most recent three (3) years of audited financial reports may still apply to the PPRF if at least two of the three conditions described in a. through c., plus condition d. are met:

a. the requested loan is backed by certain revenue streams which can be intercepted (such as Gross Receipts Tax), general obligation, law enforcement or fire protection funds, etc.) that can be verified through independent sources; or

b. the loan will fund project(s) relating to the Applicant's ability to provide health, safety, and welfare for its constituents; or

c. a letter accompanying the application, signed by the Director or Director's Designee of the Local Government Division of the Department of Finance and Administration, certifying the Applicant is fully compliant with all budget reports and other financial reports for the most recent three (3) years as required by law; and

d. a letter accompanying the application, signed by the Applicant's chief executive officer (i.e., Mayor, Executive Director or other Authorized Officer) explaining why the audit reports are not current and providing a detailed plan of how the Applicant is committed to

ensuring that all audit reports, as required by law, will be completed and brought to a current status;

The applicant understands additional information may be requested by NMFA staff based upon the type of Applicant and the nature of the public project.

2. Audited Financial Reports. Applicants that are subject to the State Audit Act will have its most recent three (3) years audited financial statements analyzed based on the auditor's opinion and any relevant Material Weaknesses or relevant repeated Significant Deficiencies as one element of determining the Applicant's creditworthiness in relation to the applied for financing. Findings relevant to creditworthiness and pledged revenue include; material cash handling issues, cash reconciliations, procurement code violations related to Capital Improvement Projects (CIP) projects, material asset management findings, or any finding considered to impact the repayment of the loan and/or management of the public project. Audited financial statements will be evaluated on the following factors:

a. Unmodified Audit Opinion. Applicants with an unmodified audit opinion where a relevant Material Weakness or relevant repeated Significant Deficiency exists for the most recent audited financial report will be required to provide a status report, signed by the Applicant's chief executive officer (e.g. Mayor, Executive Director or other Authorized Officer), on the progress of the corrective action) detailed in the applicant's audit.

b. Modified/Qualified Audit Opinion. Applicants with a modified/qualified audit opinion where a relevant Material Weakness or relevant repeated Significant Deficiency exists for the most recent audited financial report will be required to provide a management response, signed by the Applicant's chief executive officer (e.g. Mayor, Executive Director or other Authorized Officer). The management response will include processes and procedures to remediate/cure the finding and when the finding is expected to be remediated. Failure to comply with conditions a-g may result in a negative recommendation by NMFA staff of the application. Additionally, Applicants receiving a modified/qualified audit opinion for more than two (2) years in a row may lead to denial of the application.

i. The Applicant's ability to cure all Material Weaknesses or repeated Significant Deficiencies present as demonstrated by repeated and/or resolved findings over the last three (3) audited years;

ii. Current management's responses and plan to resolve all Material Weaknesses or repeated Significant Deficiencies present;

iii. Relevancy of all Material Weaknesses or repeated Significant Deficiencies present on the Applicant's ability to repay the loan;

iv. Relevancy of all Material Weaknesses or repeated Significant Deficiencies on Applicant's ability to manage, complete, and maintain the Public Project;

v. Ability to intercept the loan's pledged revenue stream; and

vi. A letter from the Department of Finance and Administration, Public Education Department, or applicable overseeing regulatory authority on Applicant's compliance with applicable laws and regulations, asset management and/or interaction/experience with current management

vii. Adverse or Disclaimed Audit Opinion. Applicants with an adverse or disclaimed audit opinion where a relevant Material Weakness or relevant repeated Significant Deficiency exists for the most recent audited financial report will be required to provide a status report and a management response, signed by the Applicant's chief executive officer (e.g., Mayor, Executive Director, or other Authorized Officer), on the progress of the CAP detailed in the applicant's audit. The management response update will include processes and procedures to remediate/cure the finding and when the finding is expected to be remediated. Applicants with an adverse or disclaimed audit opinion for the most recent financial audit must complete items i.-vi. and will receive a negative recommendation from NMFA staff. Special consideration will be given for health and safety Public Projects

#### **D. Setting PPRF Interest Rates**

1. For loan applications of less than \$10 million the NMFA will set the market rate portion ("Market Rate" loans) of the interest rate at the time the loan is being presented for NMFA committee and Board approval in the following manner, depending on the establishment of the market rate in relation to upcoming NMFA bond issuance timing:

a. The NMFA staff will set interest rates for Committee and Board consideration utilizing the published rates from the week of the previous month's NMFA Board meeting to approximate, as closely as practical, the rates that would be obtained if reimbursement bonds were to be issued the same week. The rates will be published on the NMFA's website each week.

b. The then-current Weekly Rate and a Maximum Rate will be stated in the materials presented to the Board and its Committees for their approval of the loan. The Maximum Rate will consist of the then applicable Weekly Rate plus a 75-basis point (0.75%) margin and/or maximize proceeds language within a Debt Service Coverage Ratio to provide for potential increases in rates by the time of loan closing. Staff will use the Maximum Rate for the purpose of determining whether coverage ratios for loan applications comply with the debt service coverage ratios and additional bonds test coverage ratios contained in these Loan Management Policies.

c. In certain instances, in which an applicant is seeking to maximize the net loan proceeds available from a dedicated revenue stream and the Final Rate set on the loan is lower than the maximum interest rate used by staff to determine debt service coverage, the Board delegates to the Chief Executive Officer of the authority to increase the market portion of the loan under the following conditions:

i. The staff must have specifically identified in its loan recommendation those instances in which this loan maximization might occur;

ii. The Chief Executive Officer may not increase the loan amount by more than twenty percent (20%); and,

iii. The debt service coverage must be within the minimum requirements set by the Board.

d. Following Board approval of a loan, the Maximum Rate will be “locked” for ninety (90) days while the NMFA and borrower work together to close the loan. A final rate (the rate at which the loan is established, “Final Rate”) will be determined and communicated to the borrower under the following conditions:

i. For a non-delegated authority loan, wherein the borrower’s governing body adopts the ordinance or resolution authorizing the borrowing inclusive of a of final pricing, a Final Rate will be determined and communicated one (1) week before the borrower’s adoption of the ordinance or resolution authorizing the borrowing; or

ii. For a delegated authority loan, wherein the borrower’s governing body adopts the ordinance or resolution authorizing the borrowing but delegates an authorized officer to execute final pricing by an established date, a Final Rate will be determined and communicated to the borrower pursuant to the date established in the borrower’s adopted delegated ordinance or resolution.

The Final Rate that the borrower will receive will be the Maximum Rate or the Weekly Rate then in effect, whichever is lower.

e. Any loan that does not close within the ninety (90) day period may have its Maximum Rate reset at the discretion of the Chief Executive Officer of the NMFA. Loans may establish a Final Rate and close beyond the ninety (90) day Maximum Rate lock period so long as the then applicable Weekly Rate is less than the Maximum Rate.

f. Market Rate loans of \$500,000 and greater may be reimbursed with PPRF bonds so long as such loans are closed no less than fifteen (15) days prior to the closing of the related PPRF public bond issuance.

## 2. Simultaneous Rate Loans

Loan applications of \$10 million or more, in most cases, will be designated as “Simultaneous Rate Loans”, subject to Board approval. The NMFA will set the interest rate in the following manner. The coupon rate and bond yields and closing date on Simultaneous Rate Loans will match the coupon rate, bond yields and closing date on the bonds issued to fund the Simultaneous Rate Loans. Any associated bond premium or bond discount produced by the simultaneous loan structure for that loan will be allocated to the Simultaneous Rate Loan borrower’s loan. Compliance with the debt service coverage and additional bonds test requirements will be determined during the pricing of the bonds and in no instance will the loan’s debt service coverage drop below the applicable minimum amount established by the Board. In no

case will a loan of \$10 million or more be treated as a market rate loan without a waiver of the Board.

The Chief Executive Officer may increase the size of a Simultaneous Rate Loan subject to the same conditions provided for Market Rate loans.

### 3. Determination of “Disadvantaged Entity” Interest Rates

As provided under the Rules and Regulations of the PPRF, the NMFA may provide certain “Disadvantaged Qualified Entities” with up to \$500,000 per fiscal year in below-market interest rate loans. Total funding available for disadvantaged entity loans in any fiscal year may not exceed fifteen percent (15%) of the prior fiscal year’s Governmental Gross Receipts Tax (“GGRT”) proceeds unless otherwise approved by the Board. To expand the availability of “Disadvantaged Entity” interest rates, the NMFA may limit reduced interest rates to loans of \$5 million or less.

Disadvantaged loans equal to ten percent (10%) per infrastructure loan not to exceed \$500,000 per borrower in aggregate per fiscal year or one hundred percent (100%) per equipment loan not to exceed \$150,000 may be provided at a fixed two percent (2%) interest rate if the applicant’s Median Household Income, as determined by the NMFA, is greater than eighty percent (80%) but less than one hundred percent (100%) of the State’s Median Household Income, based on the most recent five (5) year average of Median Household Income from U.S census data to the NMFA.

Disadvantaged loans equal to ten percent (10%) per infrastructure loan not to exceed \$500,000 per borrower in aggregate per fiscal year or one hundred (100%) per equipment loan not to exceed \$150,000 may be provided at a fixed zero percent (0%) interest rate if the applicant’s Median Household Income, as determined by the NMFA, is eighty percent (80%) or less of the State’s Median Household Income, based on the most recent five (5) year average of Median Household Income from U.S. census data acceptable to the Authority.

At the time that the NMFA annual budget is presented to the Board, staff will present the proposed budget for disadvantaged funding. Subsequently, the Financial Planning Director will report, on a quarterly basis, the status of disadvantaged funding compared with the approved budget.

When the budgeted funding level is reached or exceeded, an automatic moratorium on infrastructure loan disadvantaged funding will be triggered unless the NMFA Board approves a Budget Adjustment Request. Equipment loan disadvantaged funding is not subject to automatic moratorium constraints. Disadvantaged funding will not be extended to refunding or restructured loans.

## **E. Loan Structuring**

### 1. Loan Lien Priority

Generally, the NMFA will require that its loans be on no less than a parity lien with all

other lenders. Under certain circumstances, the NMFA may agree to accept a security pledge that is subordinate to the payment of other debt. These circumstances include:

a. If the identified revenue pledge has a positive historical performance with overall loan coverage adhering to the debt service coverage and additional bonds test requirements outlined in these Loan Management Policies, or to debt service coverage and additional bonds test requirements specifically set by the Board; and

b. If the identified subordinate revenue pledge is an additional revenue pledge required solely to achieve minimum debt service coverage and is not projected to be needed to make debt service payments; or

c. If the senior lien debt is held by NMFA or the U.S. Government.

## 2. Loan Payment Timing

Monthly receipt of loan payments from borrowers provides the NMFA with early detection of potential loan defaults. Generally, when such revenue stream is available, the NMFA will require its loans be paid monthly. Under certain circumstances listed below, the NMFA may allow its borrowers to pay less frequently than monthly:

a. The loan is paid annually in advance of the year's principal and interest payments (e.g., State Fire Protection Funds or State Law Enforcement Funds);

b. The requesting entity has demonstrated ability to meet prior debt obligations and has sufficient staffing to manage timely loan payments and the loan is structured with one of the following:

i. a debt service reserve fund;

ii. a contingent intercept agreement on the loan's pledged revenue stream(s);

iii. insurance or surety policy; or

iv. one of the three nationally recognized municipal bond rating agencies has assigned an underlying and outstanding rating of at least a "A/A2" or the equivalent on the entity's pledged revenue.

For loans secured by a revenue stream that is not subject to intercept but has an outstanding rating of at least an "A/A2" rating or the equivalent from one of the three nationally recognized municipal bond rating agencies the NMFA may agree to semi-annual payments provided the applicant agrees to automated payments through the Automated Clearing House, (the loan is structured with a reasonably required Debt Service Reserve), or other circumstances exist to support a payment frequency variance, and a waiver is approved by the NMFA Board.

### 3. Debt Service Reserve Requirements

a. In an attempt to mitigate unexpected or material revenue declines affecting the ability of the borrower to make its scheduled principal and interest payments on PPRF loans, NMFA will, utilizing loan proceeds, fund a reasonably required debt service reserve fund for all PPRF loans unless any one of the following conditions exist:

- i. The loan is less than \$500,000;
- ii. The borrower has created general obligation debt secured by its taxing power and full faith and credit, whereby the borrower is required by law to adjust the property tax levy sufficient to meet principal and interest due on bonds within the next year;
- iii. The requesting borrower has demonstrated ability to meet prior debt obligations and has sufficient staffing to manage timely loan payments for a loan secured by a revenue with an underlying outstanding rating of at least a “A/A2” or the equivalent from one of the three nationally recognized rating agencies.
- iv. The borrower has agreed to purchase a surety policy to enhance the loan, in the type, amount and manner acceptable to the NMFA; or
- v. The loan is secured by State Fire Protection Funds and has a minimum coverage of 2.0x.
- vi. The loan is secured by Law Enforcement Protection Funds.

b. In lieu of a bond-funded debt service reserve fund, the NMFA may allow a borrower to build its debt service reserve fund over a maximum of two (2) years with excess revenues, provided:

- i. The requesting borrower has demonstrated ability to meet prior debt obligations and has sufficient staffing to manage timely loan payments, including the two (2) year post-closing debt service reserve fund; and
- ii. It is determined that the use of excess revenue collections to build the debt service reserve fund will not impair the entity’s ability to provide governmental services.

c. In lieu of a bond-funded debt service reserve fund, the NMFA may allow an applicant that has an outstanding rating of least a ‘BBB+/Baa1’ or the equivalent from one of the three nationally recognized municipal bond rating agencies to structure into its loan a “Springing Reserve” which obligates the borrower to fund a Reasonably Required Debt Service Reserve Fund over a maximum of two (2) years if the coverage on its loan falls below 2.00x coverage.

d. The NMFA may require bond insurance or some additional form of security for a loan, including additional reserves, springing reserves, letters of credit or collateral if legally

available, if the NMFA determines that the primary revenue pledge:

- i. May be insufficient to meet the proposed debt service over the life of the loan; or
- ii. Is deemed by NMFA to be of higher risk and additional security would offset the risk of potential future declines of the primary revenue pledge.

#### 4. Revenue Intercepts

All loans will be structured utilizing an executed intercept agreement if the NMFA is statutorily allowed to intercept the pledged revenue (e.g., Gross Receipts Taxes, State Fire Protection Funds, State Law Enforcement Funds). The NMFA may agree to not activate an intercept agreement while the borrower makes monthly principal and interest payments on its loan. If the borrower fails to make these agreed upon payments in a timely manner, the NMFA will immediately begin to intercept the pledged revenues pursuant to the intercept agreement for the duration of the loan. This “contingent” or “standby” intercept arrangement will be made only to borrowers that have demonstrated ability to meet prior debt obligations and have sufficient staffing to manage timely loan payments.

#### 5. Prepayment Provisions

PPRF Market Rate and Simultaneous Rate loans will have “pre-payment” or “call” features that are identical to the call features of the bonds sold to fund, in the case of Simultaneous Rate Loans, or to reimburse the PPRF, in the case of Market Rate loans.

Loans identified and approved by the NMFA Board as equity loans may have alternative pre-payment features provided that:

- a. The total Market Rate Loan is less than \$500,000;
- b. For portfolio management purposes, attributes of the loan are deemed by NMFA staff to be better suited for the equity loan pool; or
- c. The borrower has agreed to pay the estimated cost associated with the alternative pre-payment feature. NMFA may still choose to reimburse such a loan with PPRF bonds if it can do so in an economic and efficient manner.

Loan pre-payments may be allowed during the life of the loan to allow for retirement or refunding of the loan prior to the loan’s original pre-payment date and prior to a corresponding bond’s call date, if applicable, provided that all outstanding principal and all interest and fees due on the loan through the original pre-payment date are paid in full at the time of early pre-payment of the loan. Loans pre-paid before the original pre-payment date cannot be defeased by establishment of an escrow account funded by proceeds of a NMFA loan.

The NMFA may consider waiver of these pre-payment limitations on loans prior to the original pre-payment date if: 1) the loan was not a Simultaneous Rate Loan or was a Market Rate Loan not included in a PPRF reimbursement bond issue; or 2) the bonds that originally funded the Simultaneous Rate Loan or reimbursed the Market Rate Loan have been retired or optionally redeemed by the NMFA.

6. Pursuant to the General Indenture of Trust, the Subordinated Indenture of Trust, or any subsequent PPRF Indentures of Trust, the NMFA shall manage all program, escrow, debt service reserve and debt service accounts.

The NMFA may require bond insurance or some additional form of security for a loan, including additional reserves, springing reserves, letters of credit or collateral if legally available, if the NMFA determines that the primary revenue pledge:

- a. May be insufficient to meet the proposed debt service over the life of the loan; or
- b. Is deemed by NMFA to be of higher risk and additional security would offset the risk of potential future declines of the primary revenue pledge.

**F. Debt Service Coverage and Additional Bonds Tests**

1. Debt Service Coverage

The NMFA establishes minimum levels of excess revenue coverage for different revenues pledged to secure the loans or bonds held within the PPRF and establishes tests under which borrowers may issue additional debt secured by revenues pledged to a PPRF loan. The NMFA will examine the confirmed historical amounts of pledged revenues, audited financial statements and other financial reports of the Applicant to ensure pledged revenues are sufficient to secure the PPRF loan.

The NMFA will assess loan security based on the extent to which historical pledged revenues will exceed the maximum annual debt service (MADS) due during the life of the loan. Additionally, the NMFA may consider estimated or projected revenues if a three (3) year historical average is either not available or if an entity has implemented a tax or rate increase that has not been fully reflected in financial statements. The table below presents minimum debt service coverage requirements based on historical or projected revenues.

Pledged Type	Minimum Debt Service Coverage	
	Historical	Projected
General Obligation	n/a	n/a
Governmental Gross Receipts Tax	1.20x MADS	n/a
Fire Protection Funds	1.25x MADS	2.00x MADS
Law Enforcement Funds	1.25x MADS	1.35x MADS
Gross Receipts Tax	1.25x MADS	1.35x MADS

Pledged Type	Minimum Debt Service Coverage	
	Historical	Projected
Lodger's Tax	1.30x MADS	1.50x MADS
Land Grant Merced	1.50x MADS	2.00x MADS
Charter Schools		
PSCOC lease assistance; or	1.0x lease cost	1.0x lease cost
All allowable general fund sources	1.3x lease cost	1.3x lease cost
Cigarette Tax	1.50x MADS	n/a
Higher Education (non-GO)	1.30x MADS	1.50x MADS
Health Care	1.30x MADS	1.50x MADS
Mill Levy	1.25x MADS	1.35x MADS
Improvement Districts	1.50x MADS	2.00x MADS
Non-Profit Housing	1.50x MADS	2.00x MADS
Net System Revenue		
Unrated / $\leq$ Baa1 / $\leq$ BBB+ (or equivalent)	1.30x MADS	1.50x MADS
$\geq$ A3 / $\geq$ A- (or equivalent)	1.20x MADS	1.35x MADS

## 2. Additional Bonds Tests

NMFA recognizes that public entities may access the capital markets through sources other than the NMFA. The NMFA allows entities to secure additional parity debt utilizing revenues pledged to a PPRF loan if the entity has collected in any twelve (12) consecutive month period during the past twenty-four (24) months sufficient revenue to pay MADS on the existing and proposed debt, provided the proposed loan meets or exceeds the following minimum coverage levels:

Pledged Type	Historical
General Obligation	n/a
Governmental Gross Receipts Tax	1.20x MADS
Fire Protection Funds	
Loan $\leq$ \$100K or secured by DSRF	1.25x MADS
Loan $>$ \$100K <u>and has no DSRF</u>	2.00 MADS
Law Enforcement Funds	
Loan $\leq$ \$100K or secured by DSRF	1.25x MADS
Loan $>$ \$100K <u>and has no DSRF</u>	2.00 MADS
Gross Receipts Tax	1.25x MADS
Lodger's Tax	1.30x MADS
Land Grant Merced	1.50x MADS
Cigarette Tax	1.50x MADS
Higher Education (non-GO)	1.30x MADS
Health Care	1.30x MADS
Mill Levy	1.25x MADS
Improvement Districts	1.50x MADS

<b>Pledged Type</b>	<b>Historical</b>
Non-Profit Housing	1.50x MADS
Net System Revenue	
Unrated / ≤ Baa1 / ≤ BBB+ (or equivalent)	1.30x MADS
≥ A3 / ≥ A- (or equivalent)	1.20x MADS

### 3. Rate Covenants

The NMFA requires borrowers with loans secured by net system revenues to agree to increase their rates should they fall below the minimum required coverage as outlined in the tables above in the section on Additional Bonds Tests.

## G. **Portfolio Diversification**

The NMFA attempts to ensure that the PPRF maintains a diverse pool within the program to limit the amount of concentration risk by any one borrower or pledge type.

### 1. Maximum Percent of Loan Payments from Any Single Borrower as a Percent of Pledged Revenues

<b>Borrower Minimum Rating on All Revenues Pledged to NMFA Loans</b>	<b>Maximum Loan Payments as a Percent of Pledged Revenues</b>
Unrated / ≤ Baa1 / ≤ BBB+ (or equivalent)	10%
≥ A3 / ≥ A- (or equivalent) and < Aa3 / < AA- (or equivalent)	15%
≥ Aa3 / ≥ AA- (or equivalent)	30%

### 2. Maximum Percent of Loan Payments from Any Single Borrower as a Percent of Upcoming Year's Debt Service

<b>Borrower Minimum Rating on All Revenues Pledged to NMFA Loans</b>	<b>Maximum Loan Payments as a Percent of Pledged Revenues</b>
Unrated / ≤ Baa1 / ≤ BBB+ (or equivalent)	15%
≥ A3 / ≥ A- (or equivalent) and < Aa3 / < AA- (or equivalent)	20%
≥ Aa3 / ≥ AA- (or equivalent)	25%

No single pledge type, other than general obligation, shall constitute more than fifty percent (50%) of the aggregate pledged revenues collected in the current or four (4) subsequent fiscal years.

## H. **Loan Refinancing**

In an attempt to balance NMFA's duty to prudently manage the PPRF while addressing the refinancing needs of New Mexico's communities, the NMFA will follow these guidelines when providing the extension of a new loan to refinance an existing debt.

## 1. Refinancing PPRF Loans

An existing PPRF loan may be refinanced with a new PPRF loan to reduce loan payments or improve the original terms of the PPRF loan if done so in connection with a PPRF bond issue in which the prior bonds will be redeemed or defeased. The payment schedule of the PPRF loan will be adjusted to reflect the new loan structure and the call provisions of the refinanced loan will be revised to reflect the call provisions of the refunding bond issue.

An existing PPRF loan may be refinanced on a current basis (at or after the first optional redemption date of the loan) utilizing a new PPRF loan if: i) the refinancing is done for technical purposes to prevent default, or ii) it will achieve interest rate savings of three percent (3%) of refunded and refunding par on a net present value basis and the loan does not exceed the useful life remaining on the asset(s) originally financed.

An existing PPRF loan may not be refinanced on an advanced refunding basis unless it is being done to restructure the terms of the loan to prevent a default or if all principal and interest due through the original pre-payment date is gross funded at the time of the early pre-payment.

Disadvantaged Funding will not be extended to refunding or restructured loans.

In no case will the NMFA include a “refinancing” loan in a subsequent PPRF reimbursement bond issue.

## 2. Refinancing of Borrowers’ Non-PPRF Obligations

A prospective borrower’s own obligations may be refinanced utilizing a PPRF loan if the maximum term of the “refinancing” loan does not exceed the useful life remaining on the asset(s) originally financed and the minimum net present value savings is at least three percent (3%) of refunded and refunding par.

A borrower’s non-PPRF obligations may be refinanced for technical reasons (restructurings for reasons other than savings). Such a loan will be subject to all credit review and analysis on a basis similar to the process to which borrowers applying for new money loans are subjected.

Disadvantaged Funding and NMFA Costs of Issuance Assistance will not be extended on the refinancing loan in either PPRF or non-PPRF loan refinancing.

## **APPENDIX: EVALUATION CRITERIA BY REVENUE PLEDGE & PROJECT TYPE**

**The following is a summary of specific application requirements and credit factors that will be included in the evaluation of the applications for financial assistance from the Public Project Revolving Fund. The intention in listing these factors is to provide NMFA staff and PPRF clients with a basis for the credit analysis to which loan applications will be subjected. The information in this appendix is not intended to serve as a comprehensive listing of all the factors that will be incorporated into the NMFA's lending analyses and conclusions.**

### **TYPE OF REVENUE PLEDGE**

#### **General Obligation**

##### Financial Position

- Assessed valuation trends
- Taxpayer concentration

##### Debt Management

- Outstanding debt, including proposed loan, compared to authorized bonding capacity

##### Other Factors

- Population trends (occasionally added to credit commentary)
- School enrollment trends (for school district general obligation loans)

#### **Fire Protection Fund**

##### Financial Position

- Letter from the State Fire Marshall confirming ISO rating and annual fire funds distribution.

##### Debt Management

- Outstanding debt, including proposed loan, compared to authorized distribution

#### **Law Enforcement Protection**

##### Financial Position

- Confirmation of amount of Law Enforcement Protection Funds available to applicant

##### Debt Management

- Outstanding debt, including proposed loan, compared to authorized distribution

## **Gross Receipts Tax**

### **Financial Position**

- Trends in Gross Receipts collections

### **Debt Management**

- Outstanding debt including proposed loan with respect to shared pledge

## **Net System Revenue**

### **Financial Position**

- Trends in net system revenue gross and net collections and operating results

### **Debt Management**

- Outstanding debt, including proposed loan, compared to net system revenues

### **Other Factors**

- Evaluation of the number of connections/rate payers
- Future capital plans

## **Lodger's Tax**

### **Financial Position**

- Historic collection rates
- Forecasted changes in lodger's tax rates and total collections

### **Debt Management**

- Outstanding debt, including proposed loan compared to total net collections

### **Other Factors**

- Tourism industry metrics
- Trends in room inventory and occupancy

## **Mill Levy**

### **Financial Position**

- Assessed valuation trends
- Taxpayer concentration, and the mix of property types

### **Debt Management**

- Outstanding debt, including proposed loan, compared to authorized pledged amount

### **Other Factors**

- Population trends

## **TYPE OF PROJECT**

### **Tribal Projects**

#### Financial Position -collateral types

- An irrevocable letter of credit from a lender and pursuant to terms acceptable to the NMFA
- Marketable securities acceptable to the NMFA
- Bureau of Indian Affairs loan guaranty acceptable to the NMFA.
- Cash or other assets legally available and readily accessible to the NMFA.

#### Debt Management

- Outstanding debt, including proposed loan
- A letter substantiating full faith and credit of the tribe

#### Other Factors

- The NMFA will require disclosure of complete audits and certain other financial information required in connection to loans made to Native American Nations, tribes or pueblos under the condition that audits of the pledged revenue are provided.
- Limited Waivers of Sovereign Immunity - the NMFA will require as conditions of either application approval or closing of the loan, waivers of sovereign immunity and exhaustion of tribal remedies, and other assurances of the availability of state court remedies satisfactory to the NMFA.
- Receipt by NMFA of certificate from applicant confirming no revenues from gaming

### **Charter School Facilities Projects**

#### Financial Position

- Current business plan including:
  - the mission and history of the school,
  - description of school pedagogy/educational objectives
  - anticipated educational and local community impact
  - biographies of school leadership
  - staffing plan,
  - current annual operating budget
  - at least three (3) years of complete financial statement projections
  - fundraising plans and activities
  - School Safety Plan, if available
  - Transportation Plan, if available
- Audited financial statements of the charter school and chartering authority for which the charter school is a component unit for the most recent three (3) years for which such reports are available

- Unaudited complete financial statements for the current fiscal year
- Student demographic breakdown
- A current waitlist, if available, by grade levels
- Letter of recommendation from the Applicant's Chartering Authority, if available
- Most recent review by the Applicant's Chartering Authority
- If the Applicant is currently in designation from the Public Education Department, detail of all current designations
- Facility documentation including:
  - description of current facility and needs assessment
  - current facility master plan
  - facility maintenance budget
  - reports from the last two inspections conducted by the Public School Facilities Authority
- Evidence of annual lease payments budgeted in chartering authority or of lease assistance awards to charter school
- Evidence of ability to cover payment obligations on the requested lease-purchase financing from annual lease assistance received from the public school capital outlay council (1.0x coverage requirement) or all legally allowable sources (1.30x)
- Current MAI appraisal of the property, including evidence that the property is zoned for appropriate adaptive reuse, including commercial use
- Determination that repayment is adequately secured by a deed of trust on the proposed facility and using a recent appraisal acceptable to the NMFA a maximum loan-to-value of 75% if the borrower is a charter school and 80% loan-to-value if the borrower is a school district authorizer acting on behalf of the charter school
- Status of Repair and Replacement Fund; evidence of facilities maintenance planning, adequate budget and future funding for maintenance costs

#### Debt Management

- Proposed lease is adequate to provide amortization of the asset over an appropriate period of time
- Review of outstanding debt, and/or facility leases including proposed financing

#### Other Factors

- The minimum request for financing assistance for a charter school facilities project is \$500,000 and the maximum is \$15,000,000
- Eligible uses of funding include refinancing existing lease purchase agreements
- Construction/renovation projects are not eligible and construction costs are not eligible uses of funding
- Existing school enrollment and recent trends
- Evidence that the Public Education Department has approved the terms of the proposed lease-purchase arrangement
- Lease purchase agreement must allow for a Lease Purchase Security Deposit Fund, equivalent to one (1) year of rent payments, to be paid upon delivery of the lease
- Evidence that the charter has been renewed at least once pursuant to state law
- Evidence that the Applicant possesses administrative capacity to carry out and

operate the project and to meet its lease payment obligations over a term not to exceed thirty (30) years on the requested lease-purchase financing assistance

- Evidence the charter school is in compliance and good standing with all relevant public education and public school facilities regulations
- The charter school agrees to notify NMFA immediately of any adverse action taken by the charter school's authorizer, public education department or the public school facilities authority
- The charter school agrees to submit annual reporting information to the NMFA including but not limited to an annual facilities maintenance report, audited financials, public education and public school facilities filings and reports, and evidence of adequate insurance

### **Higher Education Credits**

#### Financial Position

- Tuition and student trends
- Evaluate gross and net revenue trends

#### Debt Management

- Outstanding debt, including proposed loan, compared to gross and net revenues

#### Other Factors

- Tuition trends
- Percent of full-tuition paying students
- Competitive position
- Staffing level trends

### **Health Care Facility Credits**

#### Financial Position

- Gross revenue trends, including payor mix (private pay, government reimbursed, patient pay, indigent services and costs, etc.)
- Net revenue trends
- Analysis of profit centers, specialty practice areas, and loss leaders
- Days cash on hand

#### Debt Management

- Outstanding debt, including proposed loan, compared to gross and net revenues

#### Other Factors

- Bed occupancy trends
- Competitive position

## **Special District Credits (SADs, PIDs, TIDs, MUDs)**

### **Financial Position**

- Overall makeup of assessment payors
- Overall loan to value (appraised by a qualified third party, and on an as developed basis)
- Maximum rate of delinquency which, assuming no remedy or recovery, would continue to support full and timely payment of bond debt service in every year remaining through maturity (i.e., a stress test of revenue pledge)
- Debt service coverage by proven assessments, including evidence of legally required notice to property owners of the district assessment, etc.

### **Debt Management**

- Outstanding debt, including proposed loan, compared to gross and net assessments available for debt service

### **Other Factors**

- Evidence the District was properly formed, including the public process
- Assessment of the real estate market climate and the demand for the proposed development in the form of a third-party market study
- Percent of district with occupied, completed structures (homes, commercial buildings, etc.)
- District size, both physically and in terms of numbers of dwellings, units, and/or businesses, and district amenities
- Administrative capacity of the local government in which the District is located (i.e., County Treasurer; Assessor-Collection) to carry out any remediations necessary to secure the NMFA loan
- Confirmation that PPRF loan is for reimbursement only
- Confirmation that reimbursement occurs only if a development agreement is in place before loan application
- Requirement of a utility service agreement for total buildout of development
- Identification of eligible reimbursement items (i.e. legal, engineering, surveying, parks, administration, construction, etc.)
- Require agreement from municipal government (municipality, county) to act as district board in the event that district board is not seated

## **Non-Profit 501(c)3 Housing Development Credits**

### **Financial Position**

- Most recent two (2) years of audited financial statements

### **Debt Management**

- Outstanding debt, including proposed loan, compared to net operating income to service debt

#### Other Factors

- Trend lines in financial and operational performance metrics

#### **Land Grant Merced Credits**

#### Financial Position

- Review of State distribution from the Department of Finance and Administration
- Analysis of Merced gross revenues and administrative expenses

#### Debt Management

- Outstanding debt, including proposed loan, compared to net revenues available to service debt

#### Other Factors

- Review of audited financial statements, if any
- Revenue trends of Merced and prospect of resulting change in State revenue distribution
- Land Grant Merced loans of less than \$1 million will not be included in a PPRF reimbursement bond issue
- Land grant merced loans will be offered at the NMFA's Junior Lien tax-exempt rate