

INDEX OF MINUTES

NM SMALL BUSINESS INVESTMENT CORP

April 19, 2010

<u>Item</u>	<u>Action</u>	<u>Page</u>
<u>APPROVAL OF AGENDA</u>	Approved	1
<u>APPROVAL OF MINUTES</u> March 22, 2010	Approved	2
FINANCIAL REPORT	Informational	2
REPORT TO SIC	Informational	2
<u>REVIEW/ADOPTION OF NEW POLICIES</u>		
Whistleblower policy	Adopted	3
Document Retention Policy	Postponed	3
Joint Venture Policy	Adopted	3
REVIEW/APPROVAL OF 990 FILING	Approved w/amendments	3
VOTE ON ACCOUNTING ARRANGEMENT	Sever relationship w/REDW & enter into arrangement w/ Dee Brescia at \$125/hr	4
<u>FORMAL PRESENTATION: THE LOAN FUND</u>		
Leroy Pacheco, Norma Valdez & Staff	Informational	5
ADVISOR'S REPORT	Informational	6

MINUTES OF THE

REGULAR MEETING

NEW MEXICO SMALL BUSINESS INVESTMENT CORP.

April 19, 2010

A regular meeting of the New Mexico Small Business Investment Corporation was called to order on this date at approximately 9:00 a.m. in the conference room of the New Mexico Mortgage Finance Authority, 344 S. 4th Street, S.W., Albuquerque, New Mexico.

A quorum was present:

Members Present:

Mr. Andrew Baca, Chair

Mr. Kit Caldwell

Mr. Sam Cobb, Vice Chair

Ms. Mary A. Garza

Mr. Billy Knight

Mr. Greg Kulka [designee of State Investment Council Board Secretary]

Ms. Marie Longserre, Treasurer

Mr. Clarence L. Smith [designee of State Treasurer James Lewis]

Members Excused:

None.

Legal Counsel to Board:

Mr. Randy McDonald

Financial Advisor to Board:

Mr. Paul Goblet

Guests Present:

Mr. Leroy Pacheco, The Loan Fund

Ms. Norma Valdez, The Loan Fund

Mr. Jim Byrd, The Loan Fund (Chairman of the Board)

Mr. George Kenefic, The Loan Fund

Mr. Andrew Cadena, The Loan Fund

Ms. Sharon Wiedenhaupt, The Loan Fund

Mr. Joe Justice, The Loan Fund

APPROVAL OF AGENDA

"Report to SIC" was added to the Agenda to immediately follow the Financial Report.

Upon motion by Mr. Caldwell and seconded by Ms. Garza, the Agenda was approved by voice vote, as amended.

APPROVAL OF MINUTES: March 22, 2010

Ms. Longserre requested the following amendment on page 7:

Responding to suggestions from Mr. Kulka and Ms. Longserre, Board members agreed that NMSBIC should ~~have~~consider exploring relationships with two micro-equity investors: such as the Gap Fund and KickStart (vSpring).

Mr. Knight moved for approval of the March 22 Minutes, as amended. Mr. Cobb seconded the motion and it passed by voice vote.

FINANCIAL REPORT

Mr. Goblet presented updated working draft forecast spreadsheets for FY 2009/10, reflecting total revenues of \$588,000 and operating expenses of \$262,000, for a gross income of \$327,000. He presented a draft 2010/11 draft forecast, reflecting total revenues of \$484,000 and operating expenses of \$242,000, for a gross income of \$242,000.

Mr. Goblet said year-end valuation numbers are starting to flow in from the NMSBIC's lending partners, giving the NMSBIC a more complete picture of the financials.

REPORT TO SIC

Mr. Kulka stated that the newly structured 11-member State Investment Council, headed by State Investment Officer Steven Moise, is asking for a report on the NMSBIC at either its May or June meeting, including its activities over the last few years and investments and returns.

Mr. McDonald suggested that the SIC send a letter to Chairman Baca's attention making this request.

REVIEW AND ADOPTION OF NEW POLICIES

Policy on Reporting of Non-compliance with Laws, Regulations, or SBIC Policies

Document Retention Policy

Joint Venture Policy

Mr. McDonald stated that the IRS has begun to ask a number of questions about the policies that tax-exempt organizations have. Because the NMSBIC is about to file its Form 990 for 2008-09, he said the NMSBIC will be answering a number of questions along those lines.

Mr. McDonald said the return asks whether the NMSBIC has a whistleblower (non-compliance) policy, a document retention policy, and a joint venture policy. He stated that, while the NMSBIC does not have those policies in place, he will state on the form that the Board has them under review and plans to adopt them before June 30.

Mr. McDonald said he provided Board members with copies of the whistleblower policy and joint venture policy last week. He said he has been working on the document retention policy.

Mr. McDonald stated that there is no legal requirement for the Board to adopt any of these policies, but it represents best practices to do so.

Mr. McDonald noted that, because the NMSBIC does not have any employees, he has designed the whistleblower policy to include contract service providers.

Mr. Cobb moved to adopt the whistleblower policy and Joint Venture Policy. Mr. Smith seconded the motion, which passed by voice vote.

Mr. Goblet announced that he has opened up a Santa Fe storage unit for the NMSBIC in anticipation of the Document Retention Policy, and has placed documents there dating back to the beginning of this organization.

In discussion on the retention of business related email, Mr. Knight recommended having email addresses assigned to everyone via the NMSBIC website.

Mr. McDonald agreed to explore that option as well as the option of an email address that serves as a receptacle for a "cc" of every piece of correspondence.

REVIEW AND APPROVAL OF 990 FILING

Board members reviewed the Form 990 and the organization's mission, taken from the original enabling statute: "To create new job opportunities by making equity

investments in land, buildings or infrastructure for facilities to support new and expanding businesses in the state of New Mexico.”

Responding to a recommendation by Ms. Longserre, Board members agreed that the language should remain as is for now, but that it should look at changing it on future Form 990s.

Board members asked Mr. McDonald to amend Part III Line 4a so that it reflects back to the statute and to make changes to page 7 to reflect the eight Board members seated at that time.

Board members also reviewed suggested changes to Schedule O.

Ms. Longserre moved to accept the Form 990 with the minor changes discussed at this meeting. Ms. Garza seconded the motion, which passed by voice vote.

DISCUSSION AND POSSIBLE VOTE ON ACCOUNTING ARRANGEMENT

Mr. Goblet stated that he and Mr. McDonald recently met with Pulakos, the auditors, and discussed concerns about the quality of accounting services that the NMSBIC has been receiving from REDW. He said Pulakos, as well as Mr. McDonald, both recommended that the NMSBIC consider hiring Dee Brescia, manager of Brescia Consulting, LLC.

Mr. McDonald spoke to Ms. Brescia's background and experience. He said he has known her for 15 years and feels she is one of the best people available for this job.

Ms. Garza commented that Ms. Brescia's resume and proposal were extremely impressive.

Ms. Longserre agreed to continue to act as Board Treasurer while continuing to provide some oversight into the bill paying until some forms and systems are developed.

Mr. Goblet said Ms. Brescia offered the option of a retainer or an hourly rate, and he would recommend the latter arrangement. He said expenses should average approximately \$1,000 a month. He commented that he sees Ms. Brescia's role as a consulting CFO.

Ms. Longserre commented that the NMSBIC may find itself paying more for the first few months, and rightfully so. She said Ms. Brescia will not only need time to get up to speed on the financials, but the NMSBIC will need assistance in setting up its internal controls, best practices and separation of duties.

Ms. Garza moved that the NMSBIC sever its relationship with REDW and to enter into an arrangement with Dee Brescia for an hourly fee of \$125. Ms. Longserre seconded the motion and it passed by voice vote.

FORMAL PRESENTATION: THE LOAN FUND

Leroy Pacheco, Norma Valdez and other staff

Director Leroy Pacheco introduced The Loan Fund team and gave a slide presentation.

Norma Valdez, Community Development Director of The Loan Fund, stated that The Loan Fund typically lends \$2-\$3 million a year, but last year set a record with \$6.5+ million in loan approvals to small businesses and nonprofits in New Mexico. She said that, in 2009, The Loan Fund lent money to 12 start-up businesses, 20 nonprofit organizations, and 45 existing businesses for a total of 77 loans. She said 126 jobs were created and 647 jobs preserved as a result.

Mr. Goblet noted that the NMSBIC represents 72% of The Loan Fund's outstanding loan portfolio; however, The Loan Fund is in the process of bringing in an additional \$4-\$5 million of additional capacity.

Ms. Valdez noted that The Loan Fund has lost \$125,000 and recovered \$208,000 over the last four years, for a net recovery of \$82,000. She said The Loan Fund has withdrawn almost \$10 million from the NMSBIC and has repaid \$4 million in principal and interest, with zero losses.

Ms. Valdez reviewed some success stories.

George Kenefic, director of Enterprise Empowerment for The Loan Fund, said The Loan Fund entered into a partnership relationship with UNM's Bureau of Business and Economic Research and created a dynamic, interactive and upgradeable market survey that measures various economic baseline data. He said the data points include school age population, unemployment rates, and businesses with less than ten employees in the rural areas of the state, and the result is radically different from numbers received from the census, State Economic Development Dept., and other agencies. He presented maps of New Mexico broken down by county, reflecting much higher than expected poverty rates, unemployment rates and percentage of jobs lost due to business failure.

Mr. Kenefic said The Loan Fund then conducted a pilot project in 2009, funded by the USDA, to prove customized consulting to small businesses in Mora, Rio Arriba and Taos counties. He said they were able to serve 108 individual businesses in approximately two months.

Mr. Kenefic said The Loan Fund now has a model to work with, and plans to focus in on areas of the state where its services are needed the most and where there is a gap in service delivery. He said they plan to focus on Lea County and Doña Ana County, create working relationships to translate into successful businesses, and then work upward.

Mr. Pacheco said he has told Mr. Goblet that he would like the NMSBIC Board to consider another \$5 million for The Loan Fund.

Mr. Byrd stated that he would like The Loan Fund to gain complete self-sufficiency, but needs \$13 million just to survive on its interest income. He said it takes \$1.2 million to run the organization. He asked the Board to strongly consider providing another \$5 million commitment to The Loan Fund.

Mr. Cobb asked what percentage of loans in the NMSBIC portfolio have been modified since their origination.

Ms. Valdez responded that 24 loans have been modified, 11 of which are in the trucking industry, representing a total of less than \$500,000.

Ms. Valdez said The Loan Fund does not automatically modify a loan. She said some people fall behind two or three months, then pay to get current, then fall behind again. She said this is a pattern for the borrower and modifying their loan will not make a difference—they will only modify a loan when it will make a difference for the borrower.

Mr. Pacheco also stated that The Loan Fund pulls any loans at 180+ days past due out of the NMSBIC portfolio, whether they have been modified or not.

Ms. Valdez also clarified for Mr. Cobb that the clock starts all over again when a loan in the NMSBIC portfolio is modified. She said they will modify a loan up to two times, and the clock starts all over again each time. She added that The Loan Fund will modify a loan at 30, 60 or 90 days, but never at 180 days, because it has already gone too far.

ADVISOR'S REPORT

The Loan Fund

Mr. Goblet reported that he has spent about five hours at The Loan Fund over the last three weeks going over their files, documents and internal communications with their clients. He said he was impressed with their openness and willingness to open up their files and records, and his sense is that they are doing a good job of staying close to their clients during a very difficult economic time. He said the NMSBIC has 142 loans with The Loan Fund, 21 of which have been restructured, and that he reviewed six of the loans.

Ms. Longserre commented that, in listening to The Loan Fund's presentation today, she was able to informally calculate that about 80% of their loans are going to existing businesses and the rest to start-ups. Based on their demographic information, she said this means most of The Loan Fund's activity is going toward retaining jobs in rural areas.

Mr. Cobb and Mr. Kulka commented on the need for The Loan Fund to bring in more outside capital, not just to leverage its capital, but also to reduce the NMSBIC's percentage of the total Loan Fund portfolio. Mr. Kulka said the Board should decide what percentage it is comfortable with.

Mr. Goblet referred to a document submitted by The Loan Fund detailing its loan modification process. He said he would be recommending that the Board adopt some of the parameters in this process in order to solidify the NMSBIC's relationship with The Loan Fund.

Mr. Goblet commented that The Loan Fund has \$700,000 of capacity at the current time, most of which he expects they will call in June. He said they have a \$12 million balance sheet now, so can make loans. He stated that, if the NMSBIC gives them any more money, it should be in lockstep with The Loan Fund attracting additional capital.

Other

Mr. Goblet reviewed the remainder of his report, which provided updates on WESST Corp and ACCION, as well as the NMSBIC's equity partners.

EXECUTIVE SESSION

None.

NEXT MEETING

Monday, Monday, May 17, 2010: NMMFA

ADJOURNMENT

Its business completed, the NMSBIC Board adjourned the meeting at approximately 11:35 a.m.



Andrew Baca, President

5/24/10

Date



State Investment Council Board Secretary

6/1/10

Date