

**MINUTES OF THE**  
**NEW MEXICO SMALL BUSINESS INVESTMENT CORP.**

**REGULAR MEETING**

**September 20, 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 WESST Enterprise Center, 609 Broadway Boulevard, NE., Albuquerque, New Mexico.

A quorum was present:

**Members Present:**

Mr. Andrew Baca, Chair  
Mr. Kit Caldwell  
Mr. Sam Cobb, Vice Chair [teleconference]  
Ms. Mary A. Garza, Secretary  
Mr. Billy Knight  
Mr. Greg Kulka [State Investment Council designee]  
Ms. Marie Longserre, Treasurer

**Members Excused:**

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

**Legal Counsel to Board:**

Mr. Randy McDonald

**Financial Advisor to Board:**

Mr. Paul Goblet

**Consulting CFO:**

Ms. Dee Brescia

**Recording Secretary:**

Ms. Judith S. Beatty

**Guests Present:**

None.

**APPROVAL OF AGENDA**

Mr. Goblet asked for an additional item at the bottom of the agenda to address capital.

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

**APPROVAL OF MINUTES: August 23, 2010**

Mr. Knight moved for approval of the August 23 Minutes, as submitted. Ms. Garza seconded the motion, which passed by voice vote.

**ANNUAL MEETING MATTERS**

**A. Election of Officers**

Mr. Goblet stated that he consulted with each of the current officers, all of whom agreed to continue to serve.

Mr. Caldwell moved to approve the current slate of officers:

- Andrew Baca, Chair
- Sam Cobb, Vice Chair
- Mary Garza, Secretary
- Marie Longserre, Treasurer

Ms. Garza seconded the motion, which passed by voice vote.

**B. Conflicts of Interest/Code of Conduct Compliance**

Mr. McDonald stated that the Conflict of Interest policy requires an annual review and certification by each member of the Board. He distributed copies of the policy to Board members with certification attached.

Board members turned their signed copies in to Mr. McDonald, who said he would email the policy to Mr. Cobb and Mr. Smith.

**C. Open Meetings Act Procedure Resolution**

Mr. McDonald distributed and reviewed the 2010 Open Meetings Act Resolution, which was unchanged from last year's resolution.

Mr. Caldwell moved for approval. Ms. Longserre seconded the motion, which passed by voice vote.

**FINANCIAL REPORT**

Ms. Brescia reviewed the June, July and August financials.

Ms. Brescia said the financials would now include a schedule of activity page in each of the equity and loan funds.

Ms. Brescia reported that the audit began about two weeks ago and is going well.

**Ms. Garza moved to accept the financials for June, July and August. Mr. Caldwell seconded the motion, which passed by voice vote.**

Ms. Longserre commended Ms. Brescia and Mr. Goblet for their work on the financials. She said the statements are clear and understandable and will be extremely helpful in the future.

### **DISCUSSION AND INSPECTION OF PUBLIC RECORDS ACT REQUEST**

Mr. McDonald stated that, in response to the IPRA request made last month from a Matthew Lowe, all of the requested documents have been assembled in a room in WESST Enterprise Center, rented for that purpose. He said he informed Mr. Lowe approximately two weeks ago that the records are available for his inspection, and asking him to clarify how he will pay for the copies and when he would like to make an appointment to review the paperwork. He said the copying costs are about \$350, and Mr. Lowe has authorized up to \$250.

Mr. McDonald recommended hiring a secretary or paralegal on a temporary basis to help organize NMSBIC's files and scan all important documents for storage on a secured server.

### **DISCUSSION AND POSSIBLE VOTE ON INCREASING LOAN FUND FACILITY**

Mr. Goblet noted that, at the August meeting, the Board tentatively approved the expansion of The Loan Fund credit facility to \$8,500,000, subject to several items, the two key ones being:

- That the NMSBIC would not represent more than 65% of the total loan portfolio; and
- That the Loan Fund's debt to equity ratio would not be greater than 9 to 1.

Mr. Goblet stated that, in order for that to happen, The Loan Fund has had to expand its sources of funding, which are largely credit relations with other credit providers (e.g., loans from banks or commitments from larger funding sources such as foundations), and they have been doing this for the last nine months. He said he has told The Loan Fund that the NMSBIC cannot continue to be a majority of its funding sources.

Mr. Goblet reported that The Loan Fund's unaudited statement for 8/31/10 reflects that the NMSBIC is 81% of their outstanding loan portfolio and they have a 6.7 to 1 debt to equity ratio.

Mr. Goblet said The Loan fund has announced the following credit facilities and grants:

Loans

- \$1,000,000 million credit line from Communities at Work Fund (Citibank)
- \$500,000 Bernalillo County Loan Fund
- \$1,000,000 credit line renewal of Catholic Health Initiative
- \$100,000 loan from Seton Enablement Fund
- \$100,000 loan from Sisters of Charity

Grants

- \$750,000 grant from CDFI
- \$128,275 from SBA

Mr. Goblet stated that The Loan Fund holds \$6,021,926 in deposits, a small portion of which is restricted, which represents more than \$1 million over last year's cash balances.

Mr. Goblet stated that The Loan Fund has agreed to all of the terms and conditions proposed by the NMSBIC Board, but have requested that the 65% of loan ratio be expanded to 70%, feeling that their successful portfolio performance over the last three years, combined with their ability to deploy capital, warrants a less stringent percentage.

Mr. Goblet said he thought the 70% was reasonable.

Mr. Goblet proposed the following amendment to last month's action:

**Increase The Loan Fund's credit facility by \$1,000,000 to \$8,500,000, subject to the following restrictions:**

- **That the NMSBIC's portfolio represent no more than 70% of The Loan Fund's total portfolio;**
- **That the debt to equity ratio is no greater than 9 to 1;**
- **That the NMSBIC's portfolio remain 100% collateralized with specifically identified loans, none of which are greater than 180 days past due;**
- **That the increased capital be used for new loan origination, not loans that have been part of the total portfolio longer than 90 days; and**
- **That none of the NMSBIC's loans are amended or restructured more than once in any calendar year beginning 6/30/2010.**

Mr. Goblet said that, in addition, the NMSBIC Board may consider release of the 5% over-collateralization at some point in time when all the ratios described above have been met.

Mr. Goblet noted that The Loan Fund currently has about \$500,000 of capacity under the current loan agreement; and because this new facility will probably not be put in place until the end of September, The Loan Fund will likely draw \$300,000 to \$400,000 of capital and then it will be another 3-6 months before their other funding sources can put them in alignment with the 70% requirement.

Mr. Cobb asked if there are liquidity requirements in the debt to equity ratio.

Mr. Goblet responded that there are no stipulations in place regarding liquidity right now. He said he was not sure it was a necessity given that The Loan Fund has consistently had about \$4 million of cash on their balance sheet during the five years they have had a relationship with the NMSBIC. He also noted that The Loan Fund has \$500,000 in loan loss reserves.

Mr. Goblet commented that the only way the NMSBIC can get capital distributed around the state right now is through its three lending partners. He stated that The Loan Fund has grown in an economically challenged environment with virtually no loan losses experienced to date inside their entire organization. He stated that there have been extensions and revisions to their loan relationships, but they have been relatively minor given the size of their portfolio.

Mr. Caldwell observed that The Loan Fund has restructured their portfolio at the rate of 18% and 20%, respectively, over the last two years. He said he thought that was a high number.

Mr. Cobb said The Loan Fund is becoming an increasingly larger debtor to the NMSBIC, and the NMSBIC should take a serious look at their liquidity ratio.

Ms. Longserre suggested going ahead with the proposal but with the ability to step in and restructure the agreement if there is a sudden downward trend.

Mr. Cobb said he felt there should be some kind of liquidity requirement in place if there is an unusual event that would require them to write down their loan portfolio.

Mr. Goblet suggested a 10% liquidity ratio on The Loan Fund's total assets, which is currently \$1.4 million.

Board members agreed that this was a reasonable percentage.

**Ms. Longserre moved to accept the proposal, with the additional provision that:**

- **That The Loan Fund retain a liquidity ratio of 10% of total assets in cash or equivalents.**

Mr. McDonald recommended that, if they violate this ratio, it should trigger a default.

**Mr. Caldwell seconded the motion, which passed by voice vote.**

### **DISCUSSION AND POSSIBLE VOTE ON MATURING CD**

Mr. Goblet stated that the NMSBIC has a maturing CD on September 23 at LANB for approximately \$5,205,105, and LANB has indicated that they will not be bidding for the NMSBIC's deposits—like many banks, they are awash in liquidity.

Mr. Goblet said he will again ask several banks as to available rates and collateral as well as ask what rates are available in the CDARs program at New Mexico Bank & Trust. He commented that the CDARs program may be the best alternative for the NMSBIC.

#### **CDARs Account:**

\$6,755,000	12/02/2010	.034%
\$3,000,000	09/01/2011	.048%

A direct CD was established at NM Bank and Trust as follows:

\$245,000	11/30/2010	.040%
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The most attractive CDARs rates available with 100% FDIC insurance are:

30 days	.025%
91 days	.034%
180 days	.030%
365 days	.045%

**Mr. Goblet recommended that the NMSBIC move \$5,000,000 to the CDARs program at New Mexico Bank and Trust for 91 days at 0.34%, and that the remaining \$120,105 be moved to First Community NOW account at 0.25%.**

Mr. Goblet stated that, while short term rates are at their lowest levels, longer term rates are beginning to move higher. Since there is little difference between the 90 day rate and the 365 day rate (\$17,000 in annual interest income versus \$22,000), he said he did not believe it would make sense to tie up the NMSBIC's money for a year. He said there could be higher rates over the next 3 to 6 months.

Responding to a question from Mr. Caldwell, Mr. Goblet said the NMSBIC's investment policy is rather broad, but he does not think it is appropriate to expose the Board to any undue risk that might occur from lower grade securities just for a few more basis points. He also suggested that the NMSBIC does not have an investment staff, like the LGIP or SIC, to manage such investment activities.

Ms. Longserre commented that it is always helpful for legislators to know that the NMSBIC has not put any of its money at risk other than to deploy it under the function and mission established for the NMSBIC.

**Mr. Knight moved for approval of Mr. Goblet's recommendation. Ms. Longserre seconded the motion, which passed by voice vote.**

Mr. Goblet distributed the CDARs account report, reflecting deposits in 37 banks, all out of state.

### **ADVISOR'S REPORT**

#### **IRS**

Mr. Goblet stated that the NMSBIC has received the fourth notice from the IRS, this time informing it that its response submitted on March 25 had been sent to the wrong address. Mr. Goblet said Pulakos CPA is taking care of this on the NMSBIC's behalf. He noted that the IRS is calculating interest and penalties at \$14,392, but Pulakos feels that some or all of it may be waived.

Ms. Longserre suggested that the Board authorize its officers to make payment on the Board's behalf if the IRS offers a settlement agreement.

**Ms. Longserre moved that the Chair, Treasurer and Vice Chair be authorized to act on behalf of the Board to authorize payment, with notice to remaining Board members, in an amount not to exceed \$15,000. Ms. Garza seconded the motion, which passed by voice vote.**

#### **ACCION**

Mr. Goblet reported that ACCION had \$47,580 in loan write-offs in August, the highest loan loss since April 2006, and reported \$21,000 in loan losses for July, for a combined amount for the first two months of the fiscal year of almost \$69,000. He noted that loan losses were \$161,000 for the entire prior fiscal year.

Mr. Goblet said he is meeting with ACCION's portfolio manager and collection team each month, and ACCION is reporting its progress on any loans exceeding \$10,000.

#### **WESST Corp**

Mr. Goblet reported that there were no new loans in August, and the portfolio stands at \$87,158.

#### **The Loan Fund**

Mr. Goblet said The Loan Fund will report again in October, which is its normal quarterly reporting cycle.

### NM Mezzanine Fund

Mr. Goblet stated that the NM Mezzanine Fund is in the process of putting forth a proposed term sheet to an Albuquerque-based diagnostic testing company, and is doing due diligence on a second investment.

### NM Gap Fund

Mr. Goblet said the Gap Fund will appear before this Board next month and request an amendment to reopen the Fund; if approved, they would like to seek an additional \$500,000 from the NMSBIC.

### Flywheel Ventures

Mr. Goblet said Flywheel has closed the first round of its second fund at approximately \$6 million and hopes to have a second close prior to year end. Since the NMSBIC has finite remaining capital, and since Flywheel 2 is focused on several Western states, he feels the NMSBIC's capital would be best deployed by participating in an expanded fund of the Gap Fund.

### New Mexico Growth Fund I

Mr. Goblet said year-end audited financials have been received, as have the first and second quarter results. He commented that this Fund has been the biggest disappointment for the NMSBIC and has been the largest contributor to the investment losses by its equity partners.

### New Mexico Growth Fund II

Mr. Goblet stated that Fund II has also been a disappointment, but the NMSBIC represents only 43.7% interest in the Fund. He said Hatch Valley Farms and ClingZ are the two significant investments in this Fund. He said Hatch Valley Farms is processing chile in Mexico and regrettably now has no employees in New Mexico, and the High Desert plant (in Deming) is on the market for \$750,000. He distributed photos of the Hatch Valley Farms facility and equipment.

Mr. Goblet reported that ClingZ continues to show slightly improved performance, but the company has not yet recovered to sales levels at the time the company was purchased.

### NM Community Capital

Mr. Goblet reported that NMCC just called \$150,311 in capital for an add-on investment in Protohit, an Albuquerque startup, and is also reviewing a potential investment in partnership with New Mexico Mezzanine Fund. He said NMCC is now looking at a second fund. He noted that NMCC has a unique status as a CDFI and a



double bottom line fund, which may give them a significant advantage in accessing non-New Mexico capital. He said he has therefore encouraged them to move forward.

### Verge Fund 2

Mr. Goblet said Verge 2 has just approved its fifth investment, a cross investment in an existing company.

### NEXT MEETINGS/DRAFT PROPOSAL 2011 MEETING SCHEDULE

Monday, November 8, 2010, NMMFA

Monday, December 13, 2010 NMMFA

Board members reviewed and amended the draft 2011 meeting schedule.

### CAPITAL DISCUSSION

Mr. Goblet reported on a meeting he had recently with State Sen. Peter Wirth, who offered suggestions on how the NMSBIC might wish to proceed after the upcoming November elections.

Mr. Goblet noted that the NMSBIC could potentially request another 1/2% of the Severance Tax Permanent Fund, which would have no effect in the very near future but would have a positive impact when the economy begins to improve.

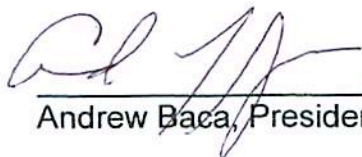
Board members agreed, upon Mr. Caldwell's suggestion, to meet on November 8, immediately following the election, to discuss strategy.

### WEBSITE UPDATE

[Postponed to November or December meeting.]

### ADJOURNMENT

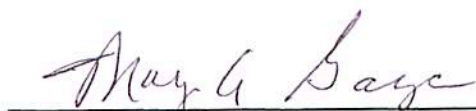
Its business completed, the NMSBIC Board adjourned the meeting at approximately 11:30 a.m.



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Andrew Baca, President

November 8, 2010 *JANUARY 24, 2011*



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Mary A. Garza, Secretary

~~November 8, 2010~~ JANUARY 24, 2011