

MINUTES OF THE
NEW MEXICO SMALL BUSINESS INVESTMENT CORP.

January 20, 2017

A meeting of the New Mexico Small Business Investment Corporation was called to order on this date at 9:00 a.m. in the conference room of WESST Enterprise Center, 609 Broadway Boulevard, N.E., Albuquerque, New Mexico. A quorum was present.

Members Present

Mr. Alan Fowler, Chair
Ms. Roxanna Meyers, Vice Chair
Mr. Joseph H. Badal, Past Board Chair
The Hon. Tim Eichenberg, New Mexico State Treasurer
Mr. Guadalupe Garcia
Mr. Steven E. Morgan, Secretary/Treasurer

Members Excused

None.

Financial Adviser to Board

Mr. Russell Cummins

Board Legal Counsel:

Mr. Randy McDonald

Recording Secretary

Ms. Charmaine Clair, for Judith Beatty

Guests Present:

Mr. Chris Traylor, New Mexico Gap Fund I -Venture Partner
Dr. Jeffrey Mitchell, BBER

REVIEW AND ACCEPTANCE OF AGENDA

Mr. Garcia moved acceptance of the agenda, as published. Mr. Badal seconded the motion, which passed unanimously by voice vote.

REVIEW AND ACCEPTANCE OF DECEMBER 9, 2016 BOARD MINUTES

Mr. Badal moved approval of the December 9, 2016 minutes, as submitted. Mr. Morgan seconded the motion, which passed unanimously by voice vote.

FINANCIAL REPORTS AS OF NOVEMBER 30, 2016 AND DECEMBER 31, 2016

Mr. Cummins noted that short-term and medium-term interest rates increased after the November election, which resulted in a reduction in the market value of the NMSIC bond pool.

Mr. Morgan moved to accept the Financial Reports, as presented. Mr. Garcia seconded the motion, which passed by unanimous voice vote.

**NEW MEXICO GAP FUND I – PROPOSED EXTENSION
CHRIS TRAYLOR, VENTURE PARTNER**

Mr. Cummins stated that Mr. Traylor was present to provide an update on New Mexico Gap Fund I, and was also requesting a one-year extension of the Partnership Term, with \$50,000 in management fees for the period from March 1, 2017 through February 28, 2018 and a total of \$16,000 in operating expenses for the 2017 calendar year.

Mr. Traylor presented an update on the performance of the fund, noting that the portfolio continues with strong performance, with total value at around \$4 million. He said the portfolio has grown in value by about \$1.6 million since he took over management of the fund three years ago.

Mr. Traylor stated that, while NM Gap Fund I was originally structured to be an option fund, the dearth of capital availability in New Mexico has forced them to convert into a life cycle fund. He said the NMSBIC has recognized the value of active management over the last three years and been willing to support that, and he feels that has been very successful. He said he believes that active management is the right call for 2017, and proposed that the NMSBIC support that for another year. He said he anticipated a reduced management fee for the following year (March 2018 to February 2019) and that fees after that point would be limited to operating expenses.

Mr. Traylor stated that, based on an analysis done by Adams Street Partners, it typically takes an average of 14 years to liquidate a venture capital fund. He said this is year 11 for the NM Gap Fund, and he feels they are on track with that timeline.

Mr. Traylor discussed projections for the fund's portfolio companies.

[Mr. Traylor exited the meeting.]

Ms. Meyers noted that the NM Gap Fund has two or three companies that Mr. Traylor feels will be successful; for that reason, she supported Mr. Cummins' recommendation of a one-year extension of the Partnership Term, with \$50,000 in management fees for the period from March 1, 2017 to February 28, 2018 and a total of \$16,000 in operating expenses for the calendar year 2017.

Mr. Badal asked why the extension was proposed for only one year. Mr. Cummins responded that this was consistent with the board's previous actions on Mr. Traylor's requests.

Mr. Badal recommended that, as the next gubernatorial election approaches, the board consider leaving some stability for whoever takes over this organization. He expressed concern that the NMSBIC's partners not be faced with long delays while a new board is appointed and the members are

familiarizing themselves with the NMSBIC. Chairman Fowler agreed and suggested the board have a discussion about this issue in January 2018.

Mr. Badal moved acceptance of the proposed one-year extension request, the management fees, and the allowable expenses. Ms. Meyers seconded the motion, which passed unanimously by voice vote.

HYPOTHETICAL WIND-DOWN ANALYSIS

Mr. Cummins stated that, in January 2015, he was asked to prepare an analysis of financial projections each year, for a hypothetical wind-down of the NMSBIC.

Mr. Cummins stated that, based on the calculation used in previous years, the hypothetical wind-down losses (sum of negative cash flows) are estimated at zero because it is assumed cash invested in the SIC Core Plus Bond Pool (bonds) will earn 2 percent, which will replace interest from the Loan Program as loans run off.

Mr. Cummins stated that, based on the calculations, he recommended the cash reserve be reduced from \$700,000 to a range between \$250,000 and \$500,000.

Mr. Garcia suggested the board take no action at this time, and leave the cash reserve at \$700,000.

Responding to Mr. Badal, Mr. Cummins noted that funds available for investment and operations are currently at about \$5 million, and the additional monies freed up with the reduction in the cash reserve would be added to this amount. Mr. Badal agreed with Mr. Garcia that the cash reserve be left unchanged, and for the board to revisit this issue when the need arises.

EXECUTIVE DIRECTOR/INVESTMENT ADVISOR REPORT

Accion

Mr. Cummins reported Accion's loan balance at \$6.9 million, or 89 percent of its \$7.75 million maximum funding amount.

Mr. Cummins said he is in the process of preparing an analysis of Accion's portfolio of NMSBIC funds, showing loan count, balance, and delinquency rate, tiered by loan size. This report will be presented at the next meeting.

Responding to Mr. Garcia, Mr. Cummins said Accion has a loan program where they will do larger loans with rates at 7 or 8 percent; and they also have smaller loans, typically with balances of \$4,000 or less, for which the interest rate is higher. Although the interest rates are higher, the interest on the smaller loans is less than what it costs Accion to originate and service the loans, as well as provide technical assistance to the small business. For the small loans provided by Accion, often the alternative for a small business might be borrowing on a credit card, or borrowing from a payday-type lender, which might have substantially higher costs than what Accion charges.

The Loan Fund

Mr. Cummins reported that The Loan Fund had relatively flat growth in December, but is expecting good growth in the first quarter of 2017 and have requested in increase in their Maximum Available Funding based on their projected loan growth.

NM Mortgage Finance Authority (MFA)

Mr. Cummins reported that MFA's balance dropped from \$1.2 million to \$800,000, or 53 percent of its \$1.5 million maximum funding amount. An \$800,000 multifamily construction loan is currently 60 days delinquent, but the NMSBIC's interest is 100 percent guaranteed by MFA. He said MFA representatives have been invited to provide an update regarding their Primero loan program at an upcoming NMSBIC board meeting.

[Break.]

BUREAU OF BUSINESS AND ECONOMIC RESEARCH – NMSBIC IMPACT ANALYSIS - JEFFREY MITCHELL, PHD, DIRECTOR

Dr. Mitchell presented highlights from BBER's report, "Economic Impacts of the NM Small Business Investment Corporation," prepared by Julian Baca, Doleswar Bhandari and Jeffrey Mitchell.

- In New Mexico, very small (fewer than 20 employees) businesses (microbusinesses in the case of the NMSBIC loan portfolio) outnumber businesses with 20 or more employees 5-to-1 and account for 55 percent of all businesses in the state.
- About half of microbusinesses (fewer than 10 employees) are able to get commercial loans. Lack of collateral is often the problem, and it is usually not profitable for banks to make these loans.
- New Mexico has been hammered by the loss of commercial banking activity and the rising difficulty of small businesses to access credit. NMSBIC and lending partners are playing a critical role in addressing this issue.
- Interest rates in the NMSBIC portfolio range from under 1 percent to 22 percent with a median rate of 13.5 percent. Accion's median interest rate is higher, and skews the median rate higher for loans made by NMSBIC loan partners.
- Although the rates offered by Accion are higher than commercial business loans, they appear to be comparable with many consumer credit card rates, yet lower than rates offered by online lenders and payday lenders.
- The rates offered by The Loan Fund are slightly higher than the typical commercial bank business loan of Prime plus 2-3 percent.
- SBIC-supported businesses created 430 direct jobs, which supported an additional 198 indirect and induced jobs for a total of 629 jobs (2015). The average multiplier for employment is 1.5, which indicates that every two jobs created by the SBIC-supported businesses support an additional one job in New Mexico.
- Dr. Mitchell discussed an approach for calculating the NMSBIC's cost per job. Additional work will be done on the cost per job calculation.

- On average, businesses receiving SBIC-supported loans created \$11.5 million in direct output, which indirectly supported an additional \$5.6 million in indirect and inducted output, totaling \$17.1 million.
- An analysis of wage record data suggests that jobs created in the equity portfolio are high paying compared to local and national averages. Annual income in the equity portfolio for these SBIC-supported jobs averaged \$58,000 in 2015.

Board members discussed the methodology used by BBER to calculate the cost of jobs created by the NMSBIC.

NEW MEXICO COMMUNITY DEVELOPMENT LOAN FUND (THE LOAN FUND) REQUEST TO INCREASE MAXIMUM AVAILABLE FUNDING

Mr. Cummins reported that The Loan Fund has requested a \$2 million increase in their revolving line of credit, from \$11 million to \$13 million. In reviewing The Loan Fund's annual activity of new loans, payoffs, and net growth for the past three years, he noted that new loan production has been roughly \$1.25 million per quarter. The Loan Fund has a pipeline of \$2.5 million in new loans expected to close in Q1 of 2017, which is double their normal production. Assuming \$2.5 million in new loans are closed with roughly \$1 million in payoffs, it might result in net growth of about \$1.5 million, versus remaining available funding from the NMSBIC of about \$1.8 million.

Mr. Cummins reviewed audited financial information for The Loan Fund for 2009 through 2015.

Mr. Cummins said The Loan Fund's goal is to increase outstanding loans from \$13 million to \$20 million over the next three to five years.

Mr. Cummins recommended that the board approve The Loan Fund's request.

Mr. Badal moved to approve the \$2 million increase. Mr. Morgan seconded the motion, which passed by voice vote, with Mr. Eichenberg voting against the motion.

REQUEST FOR PROPOSALS, INDEPENDENT AUDIT AND TAX PREPARATION FOR THE JUNE 30, 2017 FISCAL YEAR END

Mr. Cummins stated that, at the last board meeting, he was asked to check on the possibility of retaining Pulakos CPAs as the NMSBIC's auditor, and for the NMSBIC to contract for a third party peer review of the work done by Pulakos on the NMSBIC's behalf. He said he met with Wayne Brown, former managing partner at Moss Adams, who said he had never heard of anything like that, and thought it would be "highly irregular" as well as costly in both dollars and extra time required by the existing auditor.

Mr. Cummins said Mr. Brown also discussed firms that might be potential candidates to conduct an audit should the NMSBIC decide to issue an RFP.

Mr. Cummins said he also asked Mr. Brown for his thoughts on what appears to be a difference of opinion regarding whether changing audit firms is a best practice or not. Mr. Brown noted that the

AICPA does not think it is necessary, public companies are only required to rotate audit partners, and New Mexico is in the minority when it comes to states that require firms to change their auditors. Mr. Brown also commented that changing auditors every few years seems to be done more often by nonprofits, and that he personally thought there was no need to change auditors, if there is no requirement to change, and if the NMSBIC was pleased with the work being done by its current auditor.

Responding to Mr. Eichenberg, Mr. Cummins said the NMSBIC audit is not required to be provided to the State Auditor's Office, as the existing legislation only requires that the NMSBIC provide its audit to the Legislative Finance Committee and the Governor. It is also sent to the NMSIC as a courtesy. A year ago, the state's external auditor asked the NMSBIC to provide its financial statements to them so they could include it as a component unit in the state's audit, and the NMSBIC provided its audited financial statements.

Mr. McDonald said he spoke with the external auditor and commented that this was the first time in 10-11 years the NMSBIC had been asked to provide its financial statements, and the auditor responded that they were trying to improve the quality of the state audit.

Mr. Eichenberg said he agreed with Mr. Brown's opinion that a third party peer review was unnecessary and it would be difficult to find somebody to do that anyway. He said the NMSBIC seems to be happy with Pulakos, and he is very familiar with Pulakos and has known about them for most of his life. He commented that the NMSBIC is an independent agency and does not have to follow the state procurement code. Further, he feels much more comfortable that the state is including the NMSBIC's financial statements in its audit, and that the audit is also on the NMSBIC's webpage.

APPLIED CAPITAL LLC, REQUEST FOR REVOLVING LINE OF CREDIT

The consensus of the members was to postpone until the next meeting.

LEGISLATIVE UPDATE INFORMATION - - BOARD CONTINUING EDUCATION (DEFERRED TO NEXT MEETING) -

Mr. Cummins stated that the board has agreed not to meet during the legislative session unless an issue arises that requires the NMSBIC's attention. He said he was not aware of any legislative matters that would impact the NMSBIC at this point.

Mr. Badal stated that, at some point in the near future, the board should discuss enabling legislation.

CHAIRMAN'S COMMENTS

None.

ADJOURNMENT

Its business completed, the NMSBIC Board adjourned the meeting at 12:15 p.m.


Alan Fowler, Chairman

4/3/17
Date