

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

**January 23, 2015**

A meeting of the New Mexico Small Business Investment Corporation was called to order on this date at 9:00 AM in the WESST Enterprise Center, 609 Broadway Blvd. NE, Albuquerque, New Mexico.

A quorum was present:

**Members Present**

Mr. Alan Fowler, Chair [by telephone]  
Ms. Roxanna Meyers, Vice Chair  
Mr. Joseph H. Badal, Past Board Chair  
Mr. Lupe Garcia  
Mr. Steven E. Morgan, Secretary/Treasurer  
Ms. Launa Waller [by telephone]

**Members Excused:**

Mr. Clarence L. Smith [designee of Hon. Tim Eichenberg, State Treasurer]

**Financial Advisor to Board**

Mr. Russell Cummins

**Legal Counsel Present:**

Mr. Randy McDonald

**Recording Secretary:**

Ms. Judith S. Beatty

**Guests Present:**

None.

**REVIEW AND ACCEPTANCE OF AGENDA**

Mr. Garcia moved to accept the agenda, as published. Mr. Morgan seconded the motion, which passed unanimously by voice vote.

## **REVIEW AND ACCEPTANCE OF DECEMBER 8, 2014 BOARD MINUTES**

**Mr. Morgan moved approval of the minutes of the December 8 Board meeting, as submitted. Mr. Garcia seconded the motion, which passed unanimously by voice vote.**

## **FINANCIAL REPORTS AS OF DECEMBER 31, 2014**

Mr. Cummins presented the financials as of December 31, 2014, noting that all equity funds activity is reflected through 9/30/14.

Mr. Cummins noted that total interest income continues to run ahead of budget (\$4,859 MTD and \$21,606 YTD); and that operating expenses are in line with the budget both MTD and YTD.

Mr. Cummins also stated that a CD matured in December and was rolled into the First National Santa Fe money market account. NMSBIC's cash balances have been increasing. The majority of NMSBIC's cash is invested in money market accounts. When reviewed in October, the best interest rate quote received, for adding a 9-month position to the NMSBIC's CD ladder, was .20 percent, versus the .25 percent NMSBIC is earning on its money market account at First National Santa Fe. As the past two quarterly CDs have matured, NMSBIC has rolled the funds into its money market account at First National Santa Fe.

**Mr. Badal moved acceptance of the financials, as presented. Mr. Morgan seconded the motion, which passed unanimously by voice vote.**

## **EXECUTIVE DIRECTOR/INVESTMENT ADVISOR REPORT**

- **Loan Reports**
- **Equity Partner Detail**
- **Take Away Report**

### **Accion**

-- In December, the NMSBIC Board approved an increase in Accion's participation agreement. The funds would be applied to the new agreement, where the interest rate is 3 percent and losses are limited to no more than 1 percent per year. Accion is very pleased to have the increase of \$750,000 in their maximum funding amount. Amendment documents are in process.

Ms. Meyers' noted that in a presentation she and Mr. Cummins made to the NMSIC in January 2014, certain NMSIC members voiced concern about the NMSBIC's historical losses from Accion. Responding to Ms. Meyers' concerns about a negative reaction among NMSIC members to the Board's action, Mr. Badal commented that the NMSBIC recently learned that

there is no legislation planned by the NMSIC during this year's session that would have any effect on the NMSBIC.

Mr. Badal said he could understand why someone would have concerns about Accion in looking at their history three years ago, but Accion has a completely different story today and he feels the NMSBIC needs to tell that story.

Chairman Fowler and Board members agreed with Ms. Meyers that the NMSBIC should stay on top of this issue in anticipation of any NMSIC legislation that might be proposed in 2016 or 2017.

Mr. Badal suggested that, in addition to that, the NMSBIC do some strategic planning around other legislative topics it might want to also address in 2016 or 2017.

#### The Loan Fund

-- Delinquencies reported by The Loan Fund for NMSBIC loans increased in the fourth quarter of 2014. Mr. Cummins attended a staff meeting at The Loan Fund and reviewed their delinquencies in detail, but saw nothing significant that should raise any concerns. The increase was due to a couple of large loans that had late charges due, but were current.

-- The Loan Fund issued a press release announcing that they have received a \$200,000 grant from the Kresge and Surdna foundations.

#### NM Mortgage Finance Authority (MFA)

-- MFA is now ready to draw on the full \$1.5 million NMSBIC line of credit. MFA has three projects that they have committed NMSBIC funds to. NMSBIC is still awaiting a corporate resolution.

#### Rio Vista Growth Capital (RVGC)

-- RVGC had their first draw in Q4. The first monthly activity recap is included in the NMSBIC Board package.

#### WESST Corp

-- WESST is at 12 percent of its \$375,000 maximum funding amount. Mr. Cummins will meet with Kim Blueher on February 3 to discuss WESST's plans to deploy this money and whether it would be reasonable to reduce the funding amount.

### Flywheel Ventures

-- Mr. Cummins attended Flywheel's annual meeting for investors for the Flywheel funds. They are focused on driving exits because they are nearing the end of the fund life.

### NM Gap Fund

-- Mr. Fowler, Mr. Badal, Mr. Morgan and Mr. Cummins met with Chris Traylor on January 21, who gave a detailed report on NM Gap Fund investments. NM Gap Fund is progressing, and there has been a positive increase in the market value from \$1.7 million a year ago to about \$2.2 million currently. NMSBIC Board members expressed that the NMSBIC was getting benefit from the \$50,000 in management fees spent over the last year. Mr. Traylor will appear at the February NMSBIC meeting to request approval for \$50,000 in management fees for the next year.

Mr. Cummins said Mr. Badal had asked him to investigate whether the General Partner or any of the individuals involved in NM Gap Fund have any side agreements, outside of the LP agreement, that would provide them with compensate from investments in any of the companies. Mr. Cummins said Mr. Traylor had assured him there was no such compensation, and in fact, Flywheel has a policy prohibiting that.

### Mesa Capital Partners

-- On January 12, NMSBIC received a \$13,420 distribution from New Mexico Growth Fund II. This is related to payments received from the equipment lease, and the real estate contract on the building in Deming.

Mr. Cummins commented that, at this point, NMSBIC is still collecting interest on the equipment lease and real estate contract, but later this year it may make sense to negotiate with Mesa to have Mesa buy out NMSBIC's ownership interest.

### New Mexico Community Capital

-- There are no significant changes.

### New Mexico Mezzanine Partners

-- NMMP issued a capital call to NMSBIC in November for \$120,000 to cover management fees and expenses. NMMP then received a substantial loan payment on one of their loans in December. Funds received from the loan payment resulted in the capital call not being required. NMMP reversed the capital call and returned the \$120,000 to NMSBIC in December, which was in the same reporting period. On January 9, NMMP provided a \$360,000 distribution to NMSBIC related to the loan payment.

Mr. Cummins reported that NMMP has a second loan that is on track to be paid off. A third company is having some challenges, however, and the CEO has been replaced. They are taking steps to repay the loan, but there is a possibility the repayment process may go beyond the fund end date (September 2015), and this may require further discussion later in the year.

Mr. Cummins noted that, for all three remaining loans, there are warrants and options on warrants that extend about two years beyond the end of the fund date. Mr. Doolittle has proposed that he continue to manage those for no management fee. Because he has a carried interest in the fund, he has monetary interest in making sure that the value of the warrants is maximized.

Mr. Cummins said Mr. Doolittle has continued discussions that, as funds are returned from NMMP, the Board consider allocating those funds to Rio Vista Growth Capital. He noted that *Mr. Doolittle plans to join Rio Vista when his work with NMMP is wrapped up.*

Mr. Cummins said NMSBIC has \$360,000 returned in January, and about \$615,000 of committed capital in NMMP. Mr. Doolittle has proposed he send an email or write a letter stating that NMMP does not plan to draw on that committed amount if NMSBIC agrees to free up those funds for Rio Vista.

Mr. McDonald advised that, if NMSBIC opts to do this, it should require an amendment to the LP agreement stating that NMMP agrees not to call any more money.

Mr. Cummins said Mr. Doolittle has indicated that he does not want to work on an extension of the partnership agreement until later in the summer, when he has a better idea of the state of the fund at that time.

Following discussion, Board members agreed that the NMSBIC should clarify for Mr. Doolittle that it is not interested in tying any of the committed capital to NMMP to any funding of Rio Vista; and that the amendment to the agreement will essentially say that Mr. Doolittle will continue to run the fund with no management fees, out-of-pocket expenses to a certain limit, and that the fund life will be extended to the end date of the last warrant. In addition, there would be no more capital calls for any purposes.

#### **OPEN MEETINGS ACT RESOLUTION**

Mr. Cummins stated that, in response to questions raised at the last meeting, Mr. McDonald has researched the necessity of continuing to post NMSBIC Board meeting notices in the legal section of the *Albuquerque Journal* and advises that this is no longer necessary. A resolution was presented to the Board updating the NMSBIC Open Meetings Act notice policy.

Mr. Cummins recommended approval of the resolution, amended to remove the requirement of publication of the notice in the *Albuquerque Journal*. Additional amendments to the resolution now reflect that each meeting of the Board will be published on the NMSBIC

website at least ten days prior to any regular meeting, and at least three days prior to any special meeting.

**Mr. Badal moved for approval. Ms. Meyers seconded the motion, which passed unanimously by voice vote.**

\_\_\_[Ten-minute break.]

#### **HYPOTHETICAL LIQUIDATION ANALYSIS**

Mr. Cummins presented an analysis for a hypothetical wind-down of the NMSBIC through 6/30/25, assuming no assets would be sold and invested funds would be returned to the NMSBIC in the normal course of business. He said the analysis is related to potential cash reserve needs, and discussion regarding an operational cash reserve for NMSBIC.

Mr. Cummins noted that, at 6/30/25, the projection indicates the NMSBIC would have approximately \$36 million in short-term investments.

Mr. Badal recommended that such an analysis be done on an annual basis.

Board members commended Mr. Cummins on this analysis.

#### **NMSBIC CASH RESERVE REQUIREMENT**

Mr. Cummins stated that, at the last meeting, there was discussion about establishing a \$700,000 operational cash reserve, with action deferred to today's meeting.

Mr. Cummins reviewed an update regarding estimated cash available for investments and operations, which was approximately \$2 million. With \$700,000 set aside for reserves, minus the approved increase to Accion of \$750,000, plus the \$360,000 distribution from NMMP in January, about \$1 million would be available for new loans or new investments.

Mr. Cummins also presented a summary of potential cash requirements related to the Accion Prior Agreement over the next 5 years.

Mr. Cummins and Board members discussed what a reasonable number would be for additional loan commitments. If cash reserves were increased to \$1 million, about \$750,000 would be left.

**Mr. Badal moved that the NMSBIC maintain a reserve of \$700,000 and to revisit this on an annual basis. Mr. Garcia seconded the motion, which passed unanimously by voice vote.**

## VERGE II.5 PROPOSAL FOR NMSBIC TO INVEST

Mr. Cummins referred to an email from Verge Fund's managing partner Tom Stephenson, which requested that the NMSBIC consider investing in the newest Verge Fund, Verge II. 5. As noted in his email, returns in Verge II.5 are expected to be attractive and with less risk, given investments will be in seasoned Verge II companies.

Mr. Cummins said their target is to raise \$4 million, and Mr. Stephenson is proposing that NMSBIC consider an equity investment of \$500,000 to \$750,000.

Mr. Cummins said some Verge II companies are intentionally running at breakeven because all of the excess revenues are being re-invested back into growth and increasing sales. If they could have some additional capital and grow these companies for the next 12-24 months, they feel they would have the ability to significantly increase what the companies will ultimately sell for, and would improve the value to the shareholders and limited partners.

Mr. Cummins stated that this proposed investment does not fit with NMSBIC's current investment focus on expanding the NMSBIC's lending program.

Ms. Meyers pointed out that additional equity investments would create even more imbalance in the portfolio because there has not been as much money allocated on the lending side, which is where the NMSBIC is currently focused.

Mr. Badal commented that the biggest issue is that NMSBIC does not have the funds to make this investment.

**Ms. Meyers moved that the NMSBIC not entertain Mr. Stephenson's proposal to invest in Verge II.5. Mr. Morgan seconded the motion, which passed unanimously by voice vote.**

[Ms. Meyers excused herself from the meeting.]

## 2015 NMSBIC BOARD MEETING DATES

Mr. Cummins said he had included the dates in the packet as a reminder.

## LEGISLATIVE UPDATE

Mr. Cummins stated that he and Mr. Badal plan to set up a dinner or meeting with Rep. Larry Larrañaga, chair of the Appropriations and Finance Committee, to discuss the NMSBIC's status.

Chairman Fowler stressed the importance of individual Board members introducing themselves to legislators and telling them about the NMSBIC.



**OCTOBER 2015 COMMUNITY MEETING**

Mr. Morgan stated that arrangements for the meeting, to be held in Los Lunas, are ongoing.

Mr. Cummins presented a memorandum with feedback from the NMSBIC's lending partners about possible changes to the meeting format at future community meetings.

Mr. Badal said he was in accord with all of the suggestions made by the lending partners.

**BOARD CONTINUING EDUCATION, INVESTMENT POLICY REVIEW**

Mr. Cummins reviewed the Investment Policy. He said he had no recommended changes.

Mr. Cummins noted the section on "Use of Leverage" on page 6 of the Investment Policy Statement. He said this made sense early on when the NMSBIC was making capital commitments to the equity funds, the funds were not going to call on the capital for a length of time, and the NMSBIC needed available capital.

Responding to Mr. Badal, Mr. Cummins agreed to research whether NMSBIC is eligible to be a member of the Federal Home Loan Bank; and would the New Mexico Community Loan Fund and/or Accion be eligible to be members. He said he would also speak with their Community Reinvestment Act staff.

Mr. Garcia suggested that, if NMSBIC and its lending partners are not eligible, it consider partnering with a bank that is a member of the FHLB.

Chairman Fowler suggested that the NMSBIC explore any other options with the FHLB that might assist the NMSBIC's lending partners in raising funds at a better rate.

**CHAIRMAN'S COMMENTS**

None.

**ADJOURNMENT**

Its business completed, the NMSBIC Board adjourned the meeting at 11:40 a.m.

  
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Alan Fowler, Chairman

  
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Date