

MINUTES OF THE

NEW MEXICO SMALL BUSINESS INVESTMENT CORP.

January 24, 2020

A meeting of the New Mexico Small Business Investment Corporation was called to order on this date at 9:00 a.m. at WESST Enterprise Center, 609 Broadway Blvd., N.E., Albuquerque, New Mexico. A quorum was established after roll call.

Members Present

Mr. Joseph H. Badal, Chair
Ms. Roxanna Meyers, Vice Chair (by telephone)
Mr. Steven E. Morgan, Secretary/Treasurer (by telephone)
Mr. Alan Fowler (by telephone)
Mr. Guadalupe Garcia (by telephone)
The Hon. Tim Eichenberg, New Mexico State 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. Paul Cassidy, Ventana Fund Board Member (by telephone)
Mr. Todd Clarke, Executive Director and Board Chairman, Ventana Fund (by telephone)

REVIEW AND ACCEPTANCE OF AGENDA

Mr. Eichenberg moved acceptance of the agenda, as published. The motion was seconded by Mr. Fowler and passed unanimously.

REVIEW AND ACCEPTANCE OF DECEMBER 9, 2019 BOARD MINUTES

The minutes were amended to reflect Steven Morgan as Secretary/Treasurer.

Mr. Morgan moved to accept the December 9 minutes, as amended. Mr. Garcia seconded the motion, which passed unanimously.

LOAN DOCUMENTS FOR CITY OF ALBUQUERQUE REVOLVING LINE OF CREDIT

Mr. Cummins stated that the loan documents were expected by February 3. He requested that this item be postponed to the next meeting.

PROPOSED AMENDMENT TO VENTANA FUND REVOLVING LINE OF CREDIT

Mr. Cummins stated that Ventana Fund board member Paul Cassidy contacted him on January 20 and indicated that Ventana Fund has an opportunity to make a multifamily loan in Mora, and asked that the NMSBIC board consider amending its Loan Agreement to allow for proposed terms of this loan.

Mr. Cummins said the proposed borrower owns and operates a facility that provides for autistic adults in Mora, and the facility is located on 15 acres of land. Currently, workers at the facility have to drive long distances to and from the facility each day. The borrower would like to build multifamily housing on the site, at an estimated cost of \$300,000, to provide a place for the facility workers to live. Ventana Fund is having discussions with the borrower to pledge marketable securities as collateral equal to 150 percent or more of the cost of the multifamily project, and would like the NMSBIC board to consider an amendment to its Loan Agreement with Ventana Fund as follows:

- Allow cash or marketable securities as acceptable collateral for the NMSBIC Loan Portfolio;
- For loans that are fully secured by cash or marketable securities, reduce the collateral requirement from 200 percent *[to be determined, but not less than 100 percent]* of the outstanding NMSBIC Note; and
- Other changes as agreed to be Ventana Fund and the NMSBIC

Chairman Badal said he assumed the 200 percent was based on the collateral being real estate. Mr. Cummins said that was correct, adding that the 200 percent collateral requirement was put in place for real estate collateral because Ventana Fund does not yet have a history of take-outs.

Mr. Cummins noted that Ventana is talking about having marketable securities as collateral, and for this particular deal, they are looking at having 150 percent of the project costs as collateral. It might be appropriate to consider a lower LTV requirement for cash and cash equivalents, given there are no swings in market value for cash and cash equivalents. The board might want to consider two different types of collateral and thresholds, one for cash and cash equivalents, and one for marketable securities.

Mr. Cassidy agreed that cash and cash equivalent deserves a lower threshold. He added that this borrower has marketable securities that are comprised of a five-star bond fund with 5-7 years' duration, which deserves a higher margin. He added that Ventana Fund's loan officer, Bill Dolan, is recommending requiring marketable securities as collateral at 150 percent of the project cost.

Chairman Badal suggested that, at its own discretion, the board consider lower loan to values in the case of alternative collateral.

Mr. Cummins commented that setting programmatic requirements would mean Ventana would not have to come to the board for every deal. Alternatively, the board could vote on an exception to the existing loan agreement only for this particular transaction. He could then meet with Ventana and work on an alternative schedule of collateral levels, as well as an amendment to the loan agreement, for review at a future meeting.

Messrs. Clarke and Cassidy agreed with this approach.

[Mr. Clarke and Mr. Cassidy signed off.]

At Ms. Myers' request, Mr. Cummins described the Ventana Fund. He said their Gateway Pilot Program is to develop mixed income housing in rural areas around the state. They were created as a CDFI five years ago. With their Gateway Program, they plan to serve rural communities in New Mexico that need mixed income housing to attract workers who are not necessarily low income, such as nurses.

Mr. Cummins said Ventana Fund has financed 17 more traditional multifamily projects in the last five years, many in Albuquerque. The largest loan they have done is \$750,000. They have about \$5 million in net assets, but reached a point where they needed additional funding from the NMSBIC to continue expanding their program.

Mr. Eichenberg moved to approve an exception to the Loan Agreement with Ventana Fund for the loan in Mora, New Mexico, to allow for a 150 percent collateral position secured by marketable securities. Mr. Fowler seconded the motion, which passed unanimously.

MANAGEMENT OF DIRECT OWNERSHIP IN COMPANIES AFTER TERMINATION OF EQUITY FUNDS

Mr. Cummins stated that, as discussed at the December 9 board meeting, New Mexico Community Capital (NMCC) managing director Michael Schafer had indicated that NMCC was not planning on extending the limited partnership. Mr. Schafer indicated that they planned on terminating the partnership and would distribute the shares in the companies they owned to the limited partners. Chairman Badal asked Mr. Cummins and Mr. McDonald to come up with a plan for managing direct ownership in these companies that the NMSBIC might receive after termination of an equity fund partnership.

Mr. Cummins stated that, on December 11, he received an email from Mr. Schafer saying they had decided to put NMCC into a winding up period, and NMCC would not be paid a management fee during the winding up period. He said they expect it will take six months, and plan to work during that time to reduce all of their assets to cash or equivalents, and then distribute the cash to the limited partners. He said there is no guarantee they will have this done in six months, but at this point in time, the NMSBIC has no pressing issue to manage individual shares of stock from NMCC.

With respect to a similar situation, Mr. Cummins said he met on January 6 with Chris Traylor, venture partner with Flywheel Ventures and manager of the New Mexico Gap Fund, and discussed the NM Gap Fund's end-date of February 28, 2020. Mr. Traylor said no decision has been made, but he wanted to have a discussion with the NMSBIC. Mr. Cummins noted that, for the past three or four years, the NMSBIC has paid annual management fees of \$50,000 plus up to \$16,000 in expenses to the NM Gap Fund.

Mr. Cummins said the NM Gap Fund has four active companies. Mr. Traylor is in the process of closing out investments in two companies, that will result in two active companies remaining in the portfolio. Mr. Traylor feels these two remaining companies are likely to provide value, but it might take three or more years for them to achieve profitable exits. The NM Gap Fund's investment in the two remaining companies is in the form of convertible notes with liquidation preferences. Mr. Traylor indicated he does not believe it would be worth it for the NMSBIC to continue paying management fees and expenses to the NM Gap Fund to manage these two notes. His suggestion is to distribute a pro rata share of those notes to the NMSBIC and other limited partners. Mr. Cummins stated that Mr. McDonald pointed out the NMSBIC would own 87.5 percent of these notes, and would need to get the other limited partners, who own 12.5 percent, to agree to any kind of modification. Mr. McDonald suggested that NM Gap Fund rewrite the notes so that each limited partner would have its own separate note. Mr. Traylor agreed to work with the two companies and his legal counsel to see if they can arrange this.

Mr. Cummins noted that the board asked him and Randy McDonald at the last meeting to come up with a plan that might involve hiring someone on a short-term basis to manage direct equity investments the NMSBIC might receive as distributed shares from a closed equity fund. Mr. Cummins said he developed a list of key duties required for managing direct equity investments:

- Serve as point person for communications with the direct investment companies.
- Ensure the NMSBIC receives regular financial information from the companies.
- Prepare quarterly calculations of NMSBIC's ownership share in the companies.
- Calculate the estimated fair market value of the NMSBIC's ownership.
- Maintain interest rate accruals and schedules of capitalized interest for convertible notes.

- Provide a quarterly written narrative to the NMSBIC regarding the fair value of the NMSBIC's investments, and status of each company.
- Make recommendations regarding other than temporary impairment if there is a write-down.

Mr. Cummins commented that these duties are primarily accounting duties, and he believes Dee Brescia could perform all of these functions. In asking her if she would be interested in doing these things, Ms. Brescia said she feels she could do all of the above duties and would have the time to take them on, provided that there were only 2 to 4 companies involved. Given that Ms. Brescia's current Professional Services Agreement (PSA) with the NMSBIC is based on hours worked, no amendment to the PSA would be required to accommodate this additional work.

Mr. Cummins recommended that the board consider having Ms. Brescia handle the two notes for the NMSBIC if distributed from NM GAP Fund.

Ms. Myers agreed that hiring Ms. Brescia was a great idea. Chairman Badal, Mr. Morgan, Mr. Fowler, Mr. Garcia and Mr. Eichenberg concurred.


Chairman Badal asked Mr. Cummins to ask Mr. Traylor to look into whether the other three partners would be willing to sell their interests, and at what price, as this might eliminate the need to rewrite the convertible notes.

RESCHEDULE APRIL 2020 NMSBIC BOARD MEETING

The April 24, 2020, meeting was changed to April 23 at 9:00 a.m. Mr. Fowler indicated that he would be out of town. Mr. Eichenberg said he had a conflict and would ask the Deputy Treasurer to attend. The other members of the board said they would be available.

ADJOURNMENT

The meeting adjourned at 10:12 a.m.



Joseph Badal, Chairman

2/10/2020

Date