

MINUTES OF THE

NEW MEXICO SMALL BUSINESS INVESTMENT CORP.

February 10, 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

Mr. Steven E. Morgan, Secretary/Treasurer

Mr. Alan Fowler

Mr. Guadalupe Garcia

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. Robert de Pasquale, Tax Partner, Pulakos CPAs

Mr. Richard Gianni, Senior Executive Vice President, Micro Lending, Lift Fund

Mr. Tom Clausen, Senior Executive Vice President, Treasury Management, Lift Fund

Ms. Lupe Mares, VP, Lift Fund

Mr. Tom Stephenson, Verge Fund Managing Partner

REVIEW AND ACCEPTANCE OF AGENDA

Ms. Meyers moved acceptance of the agenda, as published. The motion was seconded by Mr. Morgan and passed unanimously.

REVIEW AND ACCEPTANCE OF JANUARY 24, 2020 BOARD MINUTES

Mr. Garcia moved to accept the January 24, 2020 Board Minutes, as submitted. The motion was seconded by Mr. Eichenberg and passed unanimously.

IRS FORM 900 ANNUAL TAX RETURN: ROBERT DE PASQUALE, TAX PARTNER, PULAKOS CPAS

Mr. De Pasquale reviewed Form 990.

Chairman Badal noted that the legislation states that board members should not be part of an organization seeking equity investments but does not mention debt investments.

Ms. Meyers suggested amending the language to reflect that in the bylaws as well as in the enabling legislation at some point.

Following discussion, Mr. Cummins noted the following changes to the Form 990:

- Page 6: Box 7a will be checked “yes.”
- Page 7: hours for Joseph Badal will be increased from 3 to 8 and hours for Alan Fowler will be decreased from 8 to 4.
- Page 3, Schedule D, under Part 8, Row #1 will be changed from “cost” to “market.”
- Schedule O: description will be added to go along with Box 7a on page 6, describing that the Governor appoints six of the board members. The schedule will also include a description for the breakdown of the \$45,000 on Row 11c on page 6, between accounting expenses and audit expenses.

Mr. Eichenberg moved to approve the IRS Form 990 with the changes, as presented. The motion was seconded by Ms. Meyers and passed unanimously.

FINANCIAL REPORTS AS OF NOVEMBER 30, 2019, DECEMBER 31, 2019 AND JANUARY 31, 2020

Mr. Cummins reviewed highlights from the November 30 and December 31 financial reports, noting that the January 31 reports were not yet available.

The Financial Reports reflect that Funds Available for Investments and Operations is \$2.5 million as of December 31, taking into account the \$700,000 cash reserve approved by the board. Mr. Cummins stated that, on January 6, 2020, the NMSBIC received \$57,754,768 from the severance tax permanent fund. This will increase available funds by about \$57 million, less approved commitments to the City of Albuquerque, HomeWise, and RCAC that total \$11.8 million.

Chairman Badal asked Mr. Cummins to request updates from DreamSpring and The Loan Fund on their strategic plans, including staffing levels.

Mr. Fowler moved to accept the Financial Reports as of November 30, 2019 and December 31, 2019, as presented. Ms. Meyer seconded the motion, which passed unanimously.

EXECUTIVE DIRECTOR/INVESTOR REPORT

The Loan Fund

Mr. Cummins stated that, at the June 21, 2019, meeting, the board reviewed The Loan Fund's plans to address the 2018 operating deficit. Their financial reports indicate the operating deficit declined during the first nine months of 2019. He said he expects revenues to increase because their outstanding loans have been growing. While he does not yet have their December 31, 2019 unaudited financial statements, he expects the deficit will likely become a surplus going forward due to the expected increase in revenues. He added that, given they have been successful in growing their outstanding loan balances, the board may want to evaluate the leverage ratio as it may limit future growth.

DreamSpring

Mr. Cummins stated that, while DreamSpring indicates they tightened their underwriting requirements at the beginning of 2019, it will take some time before this is reflected in their charge-off rate. He recommended that this continue to be monitored.

WESST Corp.

Mr. Cummins stated that, as requested by the board, he has met with Kim Blueher to discuss the possibility of WESST increasing their use of funding from the NMSBIC. He said he and Ms. Blueher had an initial discussion about possibly partnering with the New Mexico Economic Development Department, which has a collateral support program. A follow-up meeting is scheduled.

SIC Core Plus Bond Pool

Mr. Cummins stated that, for the six months ended December 31, 2019, the annualized net yield for the Bond Pool was 8.43 percent.

Local Government Investment Pool

Mr. Cummins reported that the LGIP annualized net yield in December was 1.66 percent on an average balance of \$5.9 million.

Potential New Lending Partners

Mr. Cummins said he has had ongoing discussions with Advantage Capital, a \$3 billion institution that does small business loans in many states, but not in New Mexico. In other states, Advantage Capital receives state tax credits that support their small business lending program. They are interested in expanding into New Mexico. Given New Mexico does not have a state tax credit program for small business loans, they are interested in partnering with the NMSBIC. They plan to make a presentation at an upcoming NMSBIC board meeting.

NMEDD Central NM Business Fair

Mr. Cummins reported that he attended the New Mexico Economic Development Department's Central New Mexico Business Finance Fair on January 16, which had a very good turnout of lending and support partners.

EPCOG

Mr. Cummins said Steve Morgan met with the director of the Eastern Plains Council of Governments (EPGOC), and they are planning on scheduling a time to meet and discuss possible opportunities.

NEW MEXICO GAP FUND I, PROPOSAL TO TERMINATE THE LIMITED PARTNERSHIP

Mr. Cummins reported that he met with Chris Traylor on February 7, and they discussed options for the termination of the NM Gap Fund, which is scheduled to terminate on February 28, 2020. There are two active companies that have value, and the NM Gap Fund has a convertible note for each of them. They had talked about having NM Gap Fund rewrite the notes into four separate notes, one each for the NMSBIC and three other partners, so that the NMSBIC would have a separate note for each company that it would manage on its own.

At the last meeting, Chairman Badal suggested Mr. Cummins ask Mr. Traylor if the general partner and other limited partners might be interested in selling their interest at a discount rather than splitting up the notes.

Mr. Cummins said he and Mr. Traylor discussed the following options:

- Option A: Split the two convertible notes into four separate notes, one for the NMSBIC, and one note each for the general partner and two advisory limited partners. The notes would be part of a series, so one note would have a liquidation preference over the other notes. This option would require approval from the two active companies.
- Option B: Have the NMSBIC purchase the limited partnership from the general partner and two advisory limited partners.

- Option C1: Have the NMSBIC purchase the general partner's and two advisory limited partners' interests in the NM Gap Fund at 80% of fair value (an asset purchase), then have the general partner terminate the limited partnership, and have NM Gap Fund assign the two convertible notes in their entirety to NMSBIC. The assignment would require approval from the two companies. The general partner believes he can sell interests of the two advisory partners at 80% of fair value without receiving input or approval from the advisory partners. 80% would represent fair value less a reasonable discount for lack of liquidity.
- Option C2: If the NMSBIC is interested in purchasing the assets of the general partners and advisory partners at a price less than 80% of fair value, the general partner requests that the NMSBIC provide a bid, which the general partner would discuss with the advisory partners. If acceptable, the general partner would obtain written consent from the advisory partners to sell at a specific price. The NMSBIC would then purchase the assets, the partnership would be terminated, and the two notes in their entirety would be assigned to the NMSBIC. Approval from the two active companies would be required.

Mr. Cummins said he noted to Mr. Traylor that working through these options might go past the partnership's February 28 termination date, and that there might need to be a short winding-up period of one or two months. Mr. Traylor indicated a short winding-up period would be acceptable.

Further discussion was tabled to later in the meeting.

LIFT FUND, PROPOSED REVOLVING LINE OF CREDIT: TOM CLAUSEN, SENIOR EXECUTIVE VICE PRESIDENT, TREASURY MANAGEMENT; RICHARD GIANNI, SENIOR EXECUTIVE VICE PRESIDENT, MICRO LENDING

Richard Gianni, Lupe Mares, and Tom Clausen joined the meeting by telephone.

Mr. Cummins provided some background on LiftFund, a CDFI and 501(c)3 organization created in 1994 and formerly Accion Texas. Lift Fund provides small business loans and technical assistance to its borrowers. Characteristics of their loan portfolio include: average loan size \$28,394; 55% Hispanic, 24% African American; and 38% are women-owned businesses. He said LiftFund has an office in El Paso and is looking to expand into Southern New Mexico, focusing on the Las Cruces market and rural communities. They project they will originate 32 loans in New Mexico in 2020-2021 with an average balance of \$32,000, for total projected production of \$1+ million over the next two years.

Mr. Cummins reviewed the Discussion Term Sheet for a proposed \$1 million line of credit with the LiftFund.

Mr. Gianni, Ms. Mares, and Mr. Clausen made a presentation.

Responding to Chairman Badal, Mr. Gianni stated that their loan loss ratio of 4.5 percent has been fairly consistent over time, and they spend a lot of time doing preparatory work with clients to help them establish a formal banking relationship. He said their underwriting criteria are well designed and proprietary, and other CDFIs contract with them because of their very good track record.

Mr. Gianni said LiftFund is a leading microlender in the U.S., with loans starting as low as \$500 with the capacity to go up to \$500,000, and they are also a leading lender in the SBA 7A community advantage program, which helps them take on added risk, especially in the startup arena. He said they don't necessarily look at things from a competitive perspective, because all of the nonprofits are looking to effect change in the small business community, particularly in the underserved areas. Their track record and focus, however, allows them to penetrate deeper into communities than others, and they can add measurable support to the Southern New Mexico economy.

Mr. Eichenberg asked how many \$500 loans have been made. Mr. Gianni responded that they haven't had a request for a loan of that size in a few years, but loans that small are available. Mr. Clausen said that, as part of a credit-building program, they can make a \$500 loan with a payback period of 3 to 6 months. Ms. Mares added that the colonias along the border are underserved areas, and this is one of their target markets, to help people who may need small loans of \$500 to \$1,000.

Mr. Eichenberg asked what their growth strategy is in year 3 to 5 should their plan be successful in the first two years. Mr. Gianni responded that they would have one person assigned to Southern New Mexico while taking a broader look at the rest of the state.

Mr. Garcia moved to approve a line of credit for \$1 million to Lift Fund. Mr. Fowler seconded the motion, which passed by voice vote, with Mr. Eichenberg voting against the motion.

**VERGE MANAGEMENT, PROPOSED REVOLVING LINE OF CREDIT:
TOM STEPHENSON, VERGE FUND MANAGING PARTNER**

Mr. Stephenson discussed Verge Fund's request for a \$500,000 revolving line of credit from the NMSBIC, secured by funds to be received from future sales of Verge Fund companies, which Verge would use to fund other expenses. These would primarily be audit fees to the external auditor and accounting services for the quarterly financials. No monies would go toward management fees.

Mr. Stephenson proposed a 4-year term with a 12 percent annual interest rate, payable in cash at the end of each quarter based on the outstanding balance; a \$1,500 one-time setup fee to cover legal expenses; 0.5 percent carried interest in each fund, and NMSBIC would be in first position, receiving repayment ahead of any distributions to the partners. The exceptions would be tax distributions and a small salary of \$2,000 a month for Mr. Stephenson.

Mr. Stephenson discussed a joint venture between Verge and New Mexico Tech to create a fund focused on investing in technology and intellectual property developed there. Within the next year, this joint venture will likely provide funds to allow Verge to pay interest on the proposed line of credit.

Responding to a question raised Mr. Eichenberg about the fact that the NMSBIC has no collateral and no personal guarantees, Mr. Cummins stated that the estimated fair market value of the investments in the five Verge funds is \$18.1 million; and while there is no guarantee that those investments will be realized, the \$500,000 line of credit would be in first position on the \$18 million of investments. Mr. Stephenson stated that the line of credit wouldn't be secured with hard assets such as real estate, but there would be security related to Verge Management's interest in the Verge funds.

[Mr. Stephenson left the meeting.]

Chairman Badal proposed reducing the line of credit to \$250,000 over a two-year period, with the potential to increase it to the full \$500,000 with benchmarks along the way, with 6 percent interest and personal guarantees, and waiving a requirement for personal financial statements because of a concern about privacy issues; with a cap of \$5,000 on legal fees.

Mr. McDonald suggested limiting them to \$125,000 in draws per year, for a total of \$500,000.

Mr. Fowler moved to approve a four-year revolving line of credit with draws up to \$125,000 per year for a total of \$500,000, personal guarantees from the four active partners with no financial statements required, 0.5% carried interest, legal fees capped at \$5,000, at an interest rate of 6 percent paid quarterly, subject to legal review and approval. Mr. Eichenberg seconded the motion with a friendly amendment to change the interest rate to 7.5 percent.

The amendment was accepted as friendly, and the motion, as amended, passed unanimously.

**NEW MEXICO GAP FUND I, PROPOSAL TO TERMINATE THE LIMITED PARTNERSHIP
-- CHRIS TRAYLOR, MANAGER OF NEW MEXICO GAP FUND I**

The board continued this discussion from earlier in the meeting.

Mr. Eichenberg moved to elect option C-2 and to authorize Mr. Cummins to make an offer equal to 25 percent of fair market value, and to also authorize Mr. Cummins and Chairman Badal to negotiate up to 80 percent of fair market value, if necessary. Mr. Fowler seconded the motion, which passed unanimously.

RDC ADVISORS LLC, RENEWAL OF PROFESSIONAL SERVICES AGREEMENT

[Mr. Cummins was not present during the discussion and action taken on this item.]

Chairman Badal stated that the NMSBIC has a three-year revolving Professional Services Agreement with Mr. Cummins. Chairman Badal noted that the board recently discussed hiring someone full-time to deal with the NMSBIC's existing equity investments, which would probably cost about \$10,000 per month. He commented that Mr. Cummins has extensive knowledge about these partnerships and it might be worthwhile to consider offering him a small percentage of the net proceeds out of any of the partnerships, which he would manage after the general partner is gone.

Chairman Badal noted that Mr. Cummins is covering his own gross receipts tax, and there are no retirement or health benefits under this agreement.

Mr. McDonald stated that, based on a comparison of executive director annual salaries among six comparable local nonprofits Mr. Cummins' current compensation is below all of them and significantly below most of them.

Chairman Badal said he thought Mr. Cummins' compensation was too low, and suggested increasing it to \$15,000 per month.

Chairman Badal said he would like to look for a reasonable way to deal with the equity investments without hiring someone else to do it. Mr. Eichenberg suggested tabling this discussion for a future date.

Mr. Eichenberg moved that, effective July 1, 2020, Mr. Cummins' compensation will be \$15,000 per month through June 30, 2021; and beginning July 1, 2021, his compensation will go up by 3.75 percent; and beginning July 1, 2022, his compensation will go up by 3.75 percent. Mr. Fowler seconded the motion, which passed unanimously.

[Mr. Eichenberg left the meeting.]

LOAN DOCUMENTS FOR CITY OF ALBUQUERQUE REVOLVING LINE OF CREDIT

Mr. Cummins stated that the loan documents were provided to the City of Albuquerque, but feedback from their legal counsel is not yet available. In talking with Nyika Allen, Director of Aviation at the Airport, she said bond counsel and legal counsel are continuing to research the federal guidelines as thoroughly as possible in preparation for submission to the FAA.

NEW MEXICO COMMUNITY DEVELOPMENT LOAN FUND, SPONSORSHIP FOR 30TH ANNIVERSARY CELEBRATIONS

Mr. Cummins said he received an email from Leroy Pacheco saying that The Loan Fund is holding 30th anniversary celebrations in Las Cruces, Albuquerque, and Santa Fe, and is requesting a \$20,000 sponsorship from the NMSBIC. Mr. Cummins said Mr. Pacheco did a very good job at the 25th anniversary celebrations in turning those into very positive marketing and promotional events.

Mr. McDonald stated that a prior \$2,000 donation to WESST was in exchange for the NMSBIC using their meeting room space for free. He said he would have concerns that a \$20,000 donation would raise anti-donation questions, and advised against it. Even as an exchange for marketing, the amount was substantial.

Chairman Badal suggested a donation of \$2,000 could be justified as a marketing expense, to promote the NMSBIC's lending program with The Loan Fund's partners and borrowers. Mr. McDonald advised that would likely not be considered as a violation of the anti-donation clause, as it is reasonably related to the benefit to be received by NMSBIC for the funds.

Mr. Garcia moved to donate \$2,000 to The Loan Fund to support their marketing efforts related to the NMSBIC's lending program. Mr. Fowler second the motion, which passed unanimously.

NEW MEXICO STATE INVESTMENT COUNCIL, RENEWAL OF JOINT POWERS AGREEMENT

Mr. Cummins stated that the Joint Powers Agreement with the State Investment Council expires on May 20, 2020. He said the NMSBIC is required to provide notice, signed by the Chair, to renew the Agreement for another four years.

Mr. Fowler moved for approval to renew the Joint Powers Agreement for another four years. Mr. Garcia seconded the motion, which passed unanimously.

LEGISLATIVE UPDATE

Mr. Cummins stated that he had no legislation to report that would affect the NMSBIC.

BOARD CONTINUING EDUCATION

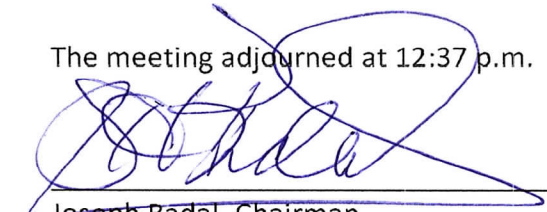
Last year Chairman Badal asked Mr. Cummins to prepare a briefing paper, to provide historical information about the NMSBIC, in case the current board is replaced with new board members. Mr. Cummins presented the briefing paper a year ago. Included in the board package is the briefing paper with updates made for changes during the past year. Chairman Badal asked board members to review the updates to the briefing paper, and provide feedback to Mr. Cummins.

CHAIRMAN'S COMMENTS

None.

ADJOURNMENT

The meeting adjourned at 12:37 p.m.



Joseph Badal, Chairman

Date