

MINUTES OF THE
NEW MEXICO SMALL BUSINESS INVESTMENT CORP.

February 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
Mr. Joseph H. Badal, Past Board Chair [joining by telephone at 11:00 a.m.]
The Hon. Tim Eichenberg, NM State Treasurer
Mr. Lupe Garcia
Mr. Steven E. Morgan, Secretary/Treasurer [leaving at 11:40 a.m.]
Ms. Launa Waller [by telephone]

Members Excused:

Ms. Roxanna Meyers, Vice Chair

Financial Advisor to Board

Mr. Russell Cummins

Legal Counsel Present:

None.

Recording Secretary:

Ms. Judith S. Beatty [by telephone]

Guests:

Mr. Jake Dopson, Pulakos CPAs
Mr. Lynn Carrozza, Rio Vista Growth Capital
Mr. Chris Traylor, Flywheel Ventures
Mr. Trevor Loy, Flywheel Ventures
Mr. Ben Olding, Jana [by telephone]

REVIEW AND ACCEPTANCE OF AGENDA

Mr. Cummins stated that Jana CEO Nathan Eagle, listed as present for NM Gap Fund I Investment Update, will be replaced by Jana co-founder Ben Olding.

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

REVIEW AND ACCEPTANCE OF JANUARY 23, 2015 BOARD MINUTES

Mr. Garcia moved approval of the minutes of the January 23 Board meeting, as submitted. Mr. Morgan seconded the motion, which passed by voice vote. [In abstention: Treasurer Eichenberg.]

FINANCIAL REPORTS AS OF JANUARY 31, 2015

Mr. Cummins presented the financials as of January 31, 2015.

Mr. Cummins noted cash balances at \$6.6 million, which includes funds invested in money market accounts. There was a sizable increase in loan balances of \$702,000 and a \$360,000 distribution received from New Mexico Mezzanine Partners. Interest income is running ahead of budget, and operating expenses are in line with budget.

Mr. Cummins reported that the NMSBIC has received \$639,000 from the NMSIC, representing its 1 percent share of the Severance Tax Permanent Fund. He stated that the Fund's market value as of 6/30/14 finally exceeded its value on 6/30/07, which was the last time the NMSBIC received its 1 percent share from the STPF. As of 6/30/07, the NMSBIC had received, in the aggregate, approximately \$47 million based on the Fund's 6/30/07 approximate value of \$4.7 billion.

Mr. Cummins said he has questioned whether this contribution should be recorded in the NMSBIC's Statement of Activities as income, or if it should be posted directly to Net Assets (and not shown as income). Dee Brescia indicated that she reviewed NMSBIC audited financial statements from 2007 and prior, and it has always been shown as income. Ms. Brescia will follow up with the NMSBIC's auditors to confirm if this is the correct presentation.

Mr. Cummins said the State Treasurer's Office (STO) reported that the final distribution was received from the Primary Fund in Liquidation; and on January 30, \$1,063.93 was deposited to the NMSBIC's LGIP account. Given the NMSBIC had previously written off its entire LGIP balance, NMSBIC recognized the amount as a recovery in January. The remaining balance in the NMSBIC's reserve contingency fund (RCF) is \$721.45, which will likely be adjusted to zero.

Mr. Cummins reported that funds available for operations and investments, with adjustments, total \$1,708,402.

Mr. Garcia moved acceptance of the financials, as presented. Ms. Waller seconded the motion, which passed unanimously by voice vote.

EXTERNAL AUDIT ENGAGEMENT LETTER: JAKE DOPSON, PARTNER, PULAKOS CPAS

Mr. Cummins noted that, although the NMSBIC is not subject to any requirements regarding a time limitation for using an audit firm, or audit partner rotation, the Board has discussed audit partner rotation after the seventh year (2015). He said Pulakos is willing to entertain any changes the NMSBIC requests, and are recommending the following changes:

-- Jake Dopson has been promoted to partner, and will replace Brad Steward as the NMSBIC's audit partner; and

-- Pulakos CPAs will assign a new audit manager to the engagement to replace Jake Dopson.

Mr. Cummins said these changes would allow a fresh look by having a new manager assigned to the job, and would allow continuity of knowledge and experience with Mr. Dopson's continued involvement.

Mr. Cummins stated that the packet includes a proposed engagement letter for an external audit as of June 30, 2015.

Mr. Cummins noted that the fiscal year ends June 30, 2015, and NMSBIC is required to have its audit completed and delivered to the chair of the Legislative Finance Committee and the Governor by October 1. A courtesy copy is sent to the NMSIC. Typically, the NMSBIC's equity partners take until around the end of August to deliver their financial information. He commented that, in the three years he has worked with Pulakos, they have been very good about working within such a tight timeframe.

Mr. Dopson stated that the proposed audit fee is unchanged from last year.

Responding to Treasurer Eichenberg about any conflict of interest in doing the audit as well as the tax return, Mr. Dopson stated that there is nothing with any of the professional standards that Pulakos has to follow or with any of the statutes that NMSBIC has to follow that create such a conflict. He said there is no conflict in performing these services.

Treasurer Eichenberg pointed out that Pulakos does the audit, and then prepares the tax return based on the audit. He believes that separating these functions provides a separate review of the information. He said he would prefer to err on the side of caution, given that taxpayer money is involved and that the Board has members who are appointed by the Governor.

Ms. Waller moved approval of the audit engagement letter with Pulakos CPAs, as presented. Mr. Morgan seconded the motion.

Treasurer Eichenberg said he would vote against the motion for the reasons stated. He suggested that, next year, the NMSBIC consider hiring separate firms to perform the audit and tax preparation work.

The motion passed by voice vote, with Treasurer Eichenberg voting against the motion.

[Mr. Dopson thanked the Board, and exited the meeting.]

NMSIC ALLOCATION OF ADDITIONAL FUNDS TO NMSBIC

[Addressed earlier under Financial Reports.]

EXECUTIVE DIRECTOR/INVESTMENT ADVISOR REPORT

a. Loan Reports, Equity Partner Detail, Take Away Report

Accion

Mr. Cummins reported that the amendment to increase funding by \$750,000 to Accion is in process. Accion has drawn 97 percent of their \$5 million maximum funding amount, which will be reduced to 85 percent once the amendment is executed.

The Loan Fund

Mr. Cummins reported that The Loan Fund is at 76 percent of its \$11 million maximum funding amount.

NM Mortgage Finance Authority

Mr. Cummins said NMSBIC has a \$1.5 million line of credit to the MFA, which has approved NMSBIC funds for three multifamily projects, located in Roswell, Las Vegas, and Zuni. All loan documentation with MFA, including the corporate resolution, is now in place.

Mr. Cummins stated that MFA has provided their September 30, 2014 audited financial statements. MFA appears to be in sound financial condition.

WESST Corp.

Mr. Cummins reported that he met this month with Kim Blueher and Melissa Toland at WESST Corp. about the prospect of WESST deploying more of the \$375,000 in NMSBIC

committed funds. For the past several years, WESST has not committed more than \$100,000 in NMSBIC funds.

Mr. Cummins stated that WESST Vice President of Lending, Kim Blueher, had discussed the issue with WESST Executive Director Agnes Noonan. Ms. Blueher and Ms. Noonan indicated that WESST has used SBA funds as their primary source of funds for their lending program because SBA provides funds for their loans as well as grants that provide technical assistance to businesses. They noted that SBA has notified WESST that SBA funds will be limited in 2015, so they may not be able to fund as many loans with SBA as in the past. WESST has therefore asked that NMSBIC not reduce their line of credit at this time.

Flywheel Ventures

Mr. Cummins reported that he attended Flywheel's annual limited partner meeting in January. The primary focus for the partnership is driving their portfolio companies to exit. It is likely that the extensions provided for in the LP agreement will be used.

Mesa Capital Partners

Mr. Cummins stated that Mesa continues to wind down. On January 12, NMSBIC received a \$13,420 distribution from New Mexico Growth Fund II, which is related to payments received from the equipment lease and the real estate contract on the building in Deming.

New Mexico Community Capital

Mr. Cummins stated that he met with NMCC managing fund director Michael Schafer. NMCC limited partnership agreement has a scheduled fund end date of June 30, 2015. The agreement allows for three one-year extensions, subject to approval by 72 percent of the limited partners. Mr. Schafer plans to submit a formal request to the limited partners in April to extend the fund end-date by one year, which can be reviewed by the NMSBIC Board at its May 22 meeting. Mr. Schafer also noted that management fees will decline as the fund achieves company exits and invested capital declines.

New Mexico Mezzanine Partners

Mr. Cummins noted that, at its January 23 meeting, the NMSBIC Board stated that, in order to free up capital uncalled by NMMP, it would require an amendment to the limited partnership agreement. In addition, given that there are three warrants that expire roughly two years after the fund end-date, NMSBIC would prefer that an LP amendment address: an extension of the fund end-date; no more capital calls for investments; and no more management fees after the fund end-date. Further, the Board does not want to connect any discussions regarding freeing up NMMP capital with discussions about additional funding for Rio Vista Growth Capital.

Mr. Cummins said he has spoken with Mike Doolittle about these issues, and Mr. Doolittle is not ready to make a proposal to extend the fund end-date because he is exploring other options. Mr. Doolittle asked if the NMSBIC might consider using a side letter to free up uncalled capital; however, NMSBIC legal counsel Randy McDonald has recommended against using a side letter for this purpose.

Verge Funds

Mr. Cummins stated that Verge Funds requested a change to their valuation policy:

- Increase the threshold for valuing companies based on a multiple of sale from \$500,000 to \$1million, based on trailing 12-month sales. Companies with less than \$1 million in sales will continue to be valued base don historical cost or last-round valuation.
- Eliminate the use of “multiple net income” from the policy.

Mr. Cummins noted that the changes to the valuation policy would only impact investment valuation adjustments and would have no impact on actual realized gains or losses, and he voted yes to the changes. He noted that the NMSBIC Board authorized him on June 18, 2012 to represent NMSBIC in routine matters that included valuation policy changes.

LEGISLATIVE UPDATE

Mr. Cummins stated that, at the time the board package went out, it appeared that there were no proposed legislative changes that would impact the NMSBIC.

Mr. Cummins said Senate Bill 618, sponsored by George Muñoz, proposes that funding for the NMSBIC be eliminated. It removes all reference from the current funding legislation that the State Investment Officer would allocate 1 percent of the Severance Tax Permanent Fund to the NMSBIC. Based on NMSBIC legal counsel Randy McDonald’s reading of the bill, it would not require NMSBIC to return any money, but would stop all future funding, and would also eliminate the NMSIC’s private equity program. Mr. McDonald feels that the bill proposes such a dramatic change that it does not have a high probability of moving forward.

Mr. Cummins distributed copies of a letter that Mr. Badal had asked him to draft in response to Senate Bill 618. Mr. Badal (who would be joining today’s meeting later) would like to know if there is support among Board members for the letter.

[Further discussion deferred until later in meeting.]

**RIO VISTA GROWTHCAPITAL -- UPDATE AND REQUEST FOR ADDITIONAL FUNDING:
LYNN CARROZZA, MANAGING MEMBER**

As background, Mr. Cummins stated that the Board approved a \$750,000 revolving line of credit on June 30 for Rio Vista Growth Capital (RVGC). RVGC funded its first loan on October 31, 2014, and drew the entire amount to fund its first and only loan. At the NMSBIC Board meeting in October, Mr. Carrozza noted that there is demand for more mezzanine finance in New Mexico, and asked if the Board would approve increasing the amount by at least another \$750,000 so that RVGC can look at other opportunities. RVGC's goal is to raise \$3 million. At that time, the Board felt that the agreement was too new and wanted additional time to evaluate this new lending relationship.

Mr. Carrozza provided the Board with an update on the progress of RVGC's first investment.

Mr. Morgan expressed concern that, once investments are made and companies begin to blossom, they then leave New Mexico. He asked Mr. Carrozza to comment.

Mr. Carrozza said he could not guarantee that businesses will always remain here, but for their first loan, the owner lives in New Mexico and there has been no indication that the company plans to move out of the state. He added that there is always the potential for that after an exit and when the company is acquired by another party.

Mr. Carrozza stated that, last summer, RVGC compiled a list of a half dozen companies to watch and monitor. He said any of those companies would be a candidate for RVGC, adding that RVGC has "plenty of opportunities." A couple of companies on the list have bank financing, but not enough funding with which to grow. Most have cash flow that can support the debt service but are not quite ready for bank financing.

Mr. Cummins said NMSBIC feels it is important to have available capital for Accion and The Loan Fund, and the interest rate the NMSBIC earns on loans to these lending partners is roughly 2 percent. NMSBIC feels that the risk with Accion and The Loan Fund is less than with RVGC because these organizations not only secure the NMSBIC's loans with the underlying loans that they make, but also they absorb losses in accordance with the terms of their agreements. Both organizations have long operating histories, and are viable ongoing companies.

Mr. Cummins commented that, with RVGC, there is a higher risk of loss, but there is also a higher return. The loans that RVGC originates will have a 10-16 percent interest rate, with NMSBIC receiving one-half of the interest charged on loans.

Mr. Carrozza requested that the Board consider lending \$1 million to RVGC in addition to the \$750,000 lent previously.

[Break.]

LEGISLATIVE UPDATE (Cont'd)

Board members discussed the draft letter prepared by Mr. Badal regarding Senate Bill 618.

[Mr. Badal joined the meeting by phone.]

Mr. Badal and Board members agreed with a suggestion by Treasurer Eichenberg that the NMSBIC send a letter as soon as possible to the bill's sponsor, Senator Muñoz, with data on the number of jobs created through the NMSBIC's lending partners, as well as other relevant information, and express the NMSBIC's willingness to meet with him in Santa Fe. The letter would be signed by Chairman Fowler.

Treasurer Eichenberg recommended that, rather than send a second letter to the Governor, the Board monitor the progress of the bill. If the bill makes it through its first committee, then the board can proactively communicate with members of each committee the bill is referred to.

NM GAP FUND I, INVESTMENT UPDATE:

- **CHRIS TRAYLOR, VENTURE PARTNER, FLYWHEEL VENTURES**
 - **BEN OLDING, CO-FOUNDER, JANA, INVESTMENT UPDATE**
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Mr. Traylor, with Flywheel Ventures, and Flywheel Ventures managing partner and founder Trevor Loy, presented updates on three portfolio companies as well as fund performance over the last year.

Mr. Olding presented an update on Jana, one of Flywheel's portfolio companies.

**NM GAP FUND I, REQUEST FOR MANAGEMENT FEE AND EXPENSES –
CHRIS TRAYLOR, VENTURE PARTNER, FLYWHEEL VENTURES**

Mr. Traylor presented a year-over-year analysis of portfolio performance, noting that the total value of the portfolio has increased by more than \$400,000 in the past year. He said this is net of the expenses used to pay for managerial expenses. In 12 months, the IRR on a gross basis has doubled in one year, and there has been an eightfold increase in net IRR. He stressed that this is despite the \$58,000 paid out of cash reserves to fund his role over the past year, along with some additional expenses.

Ms. Waller noted that Jana is headquartered in Boston. She asked how this ties back to New Mexico, and does that cause any problems for the NMSBIC if it invests in companies that are not headquartered here or are not predominantly in New Mexico.

Mr. Cummins responded that the NMSBIC was able to participate in an initial investment when Jana was located in Albuquerque, but since they have moved to Boston, the NMSBIC may not participate in any additional investments in that company. He added that Jana is an example of a company that works the way the fund was initially planned and designed to work, in that the New Mexico Gap Fund provided some seed capital and the Jana got additional funding from other venture capital funds that helped propel their growth forward.

Mr. Traylor said the limited partner agreement prohibits NM Gap Fund from providing any additional follow on investment once the company relocates out of New Mexico.

Mr. Cummins added that this is one reason why NMSBIC feels that equity investments do not make sense for the NMSBIC, and why it has refocused on loans instead of equity investments.

Mr. Cummins recommended that the Board approve another year's worth of management fees and expenses for NM Gap Fund. While some of the increase in value over the past year might have occurred with or without Mr. Traylor's help over the past year, he believes Mr. Traylor has added value, and is working with the remaining companies to drive them to successful and profitable exits.

Mr. Badal moved to approve another \$50,000 in management fees for 2015 and another increase of \$8,000 in expenses, from \$8,000 to \$16,000, in 2015. Mr. Garcia seconded the motion, which passed unanimously by voice vote.

[Mr. Morgan left the meeting.]

Mr. Traylor discussed the NM Gap Fund's work plan over the next 12 months.

SHORT TERM INVESTMENTS:

- **CD MATURING ON MARCH 10, 2015, TRANSFER TO MONEY MARKET**
- **TRANSFER LGIP FUNDS TO MONEY MARKET AND CLOSE ACCOUNT**

Mr. Cummins requested the following:

-- That the Board approve transferring the proceeds of approximately \$1.5 million, plus interest, from the First National Santa Fe CD that matures on March 10, 2015, into the 100 percent collateralized moneymarket account at First National Santa Fe. The best interest rate quote received for adding a 9-month position to the NMSBIC's CD ladder was 0.20 percent, versus 0.25 percent the NMSBIC is earning on its money market account at First National Santa Fe.

-- As addressed in his financial statement recap, that the Board transfer the \$1,063.93 distribution, plus interest, from the NMSBIC LGIP account to the NMSBIC's money market account at US Bank; and close the NMSBIC's LGIP account when allowed by the Treasurer's Office.

Mr. Garcia moved both requests made by Mr. Cummins. Mr. Badal seconded the motion, which passed by voice vote, with Treasurer Eichenberg voting against the motion.

BOARD CONTINUING EDUCATION

[None this meeting.]

CHAIRMAN'S COMMENTS

Chair Fowler said he would like the Board to focus this summer on being in touch with legislators and educating them on what the NMSBIC does.

ADJOURNMENT

Its business completed, the NMSBIC Board adjourned the meeting at 11:50 a.m.



Alan Fowler, Chairman



Date