

MINUTES OF THE

NEW MEXICO SMALL BUSINESS INVESTMENT CORP.

February 23, 2018

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 (by telephone initially)
Mr. Guadalupe Garcia
The Hon. Tim Eichenberg, New Mexico State Treasurer
Mr. Steven E. Morgan

Members Excused

Ms. Roxanna Meyers, Secretary/Treasurer
Mr. Joseph H. Badal, Vice Chair

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, Pulakos CPAs
Mr. Michael Schafer, New Mexico Community Capital
Dr. Jeffrey Mitchell, Director, BBER
Mr. Julian Baca, BBER
Mr. Ray Ziler, CFO, ACCION
Ms. Annalisa Anaya-Smith, ACCION

REVIEW AND ACCEPTANCE OF AGENDA

Mr. Morgan moved acceptance of the agenda, as published. Mr. Garcia seconded the motion, which passed unanimously.

REVIEW AND ACCEPTANCE OF DECEMBER 2, 2017 BOARD MINUTES

Mr. Morgan moved to accept the December 2, 2017, minutes, as submitted. Mr. Garcia seconded the motion, which passed unanimously.

IRS FORM 990 – ROBERT DE PASQUALE, TAX PARTNER, PULAKOS CPAS

Mr. De Pasquale reviewed highlights from the Form 990, which the NMSBIC files annually.

Mr. De Pasquale noted that nothing in the tax reform legislation passed in December by Congress would impact the NMSBIC.

Mr. Cummins stated that the only proposed change to this year's Form 990 is a footnote in Part VII, changing the Secretary/Treasurer to Roxanna Meyers from Steven E. Morgan in October 2016. Mr. De Pasquale said he would add an additional note that both were board members for the entire year.

Mr. De Pasquale noted that the IRS has extended the filing deadline for the Form 990 from four and a half months to six months from year-end, or until May 15, 2018.

Mr. Eichenberg moved to accept the Form 990, with the change, and authorize the filing. Mr. Morgan seconded the motion, which passed unanimously.

FINANCIAL REPORTS AS OF NOVEMBER 30, 2017, DECEMBER 31, 2017 AND JANUARY 31, 2018

Mr. Cummins reviewed highlights from the financial reports.

-- The biggest cash changes (as of December 31) were the result of The New Mexico Mortgage Finance Authority drawing \$700,000 on their line of credit up to the maximum of \$1.5 million; and The Loan Fund drawing \$696,000, which pushed their loan balance up over \$10 million.

-- Income continues to run ahead of budget, primarily due to better-than-budgeted returns from the SIC Core Plus Bond Pool.

-- There is \$4,130,000 in funds available for investment (minus \$700,000 cash reserve), and the NMSBIC expects to receive a \$1.6 million distribution from the Severance Tax Permanent Fund within the next 30 days, bringing the total to more than \$5.5 million.

Mr. Eichenberg moved to accept the financial reports, as presented. Mr. Morgan seconded the motion, which passed unanimously.

HYPOTHETICAL WIND-DOWN ANALYSIS AND CASH RESERVE

Mr. Cummins stated that the NMSBIC began regularly doing a hypothetical wind-down analysis a few years ago to establish a cash reserve and estimate cash needs during the wind-down period. At the time the wind-down reviews were initiated, the NMSBIC was earning about 2 percent on its loan portfolio, which more than covers operating expenses and results in an adequate ongoing cash flow. At that time, the NMSBIC was also earning relatively low yields on bank Certificates of Deposit (CDs), of generally less than 0.50 percent per year. Reinvesting loan proceeds in lower yielding bank CDs did not appear to provide sufficient cash flow during a hypothetical wind-down. Based on that, the NMSBIC established a \$700,000 cash reserve.

Mr. Cummins stated that since the time when the hypothetical wind-down analysis was started, the NMSBIC established a new investment option, the SIC Core Plus Bond Pool. This new investment is estimated to provide a return of roughly 3 percent annually, but is subject to market fluctuations, therefore the NMSBIC budgets a conservative 2 percent yield on this investment. In a hypothetical wind-down, if no new loans are made, and as loans are repaid and funds are reinvested in the SIC Core Plus Bond Pool with a 2 percent annual yield, there will likely be sufficient interest income to cover operating expenses during a wind-down period.

Mr. Cummins said that, when this analysis was presented to the board last year, the board decided that, even with projected interest income expected to cover operating expenses, the NMSBIC would keep its \$700,000 cash reserve.

Mr. Garcia said he felt maintaining the \$700,000 cash reserve was prudent.

Mr. Garcia moved to accept the report and cash reserve, as presented. Mr. Morgan seconded the motion, which passed unanimously.

NEW MEXICO COMMUNITY CAPITAL PROPOSED EXTENSION: MICHAEL SCHAFER, MANAGING DIRECTOR

Mr. Schafer presented an update on the New Mexico Community Capital portfolio.

Mr. Schafer requested that the NMSBIC consider approving an extension of the fund to June 2020, with reduced management fees going forward, but said he would be amenable to a shorter extension period. He recommended amending the existing documents rather than creating a new one, and including a simple monthly management fee.

Mr. Cummins stated that NMSBIC approval would be contingent upon NMCC getting 72 percent approval from the limited partners, and also would be subject to review by legal counsel.

Mr. Schafer left the meeting.

The board agreed to table further discussion until later in the meeting.

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

Mr. Cummins stated that he, along with board members Alan Fowler, Joe Badal and Steve Morgan (which was not a quorum of the board) met with Chris Traylor earlier this week. The purpose of this informal meeting was to hear details about the portfolio companies in New Mexico GAP Fund I, including proprietary information that could not be shared in a public meeting.

Mr. Traylor presented slides. He said the fund remains healthy and strong, and the value above paid-in capital has increased from \$78,000 in 2013 to \$1.5 million in 2017.

Mr. Traylor said he was requesting a one-year extension of the limited partnership, to March 2019, with a proposed management fee of \$50,000 and total expenses of \$16,000.

Chairman Fowler asked Mr. Traylor what action he would take if the NMSBIC failed to act on his proposal. Mr. Traylor responded that he expected he would leave the firm and Trevor Loy would then provide the general partner oversight. It would either move into a liquidating trust, or they could continue in that capacity with no management fee.

Mr. Cummins noted that Mr. Traylor had indicated at the informal meeting earlier this week that he thought the fund would need another three years before exits of all companies would be fully realized. When asked if he would be willing to continue managing the fund for a period longer than one year, Mr. Traylor indicated that he would be willing to continue for three more years, with the same management fee of \$50,000 in year two and \$25,000 in year three.

Mr. Traylor suggested that the GP be given the discretion to extend the life of the fund up to three years, but that the decision be made by the GP on a year-over-year basis.

Mr. Traylor clarified that he was not proposing an increase in operating expenses from the previous year for the one-year extension.

The board agreed to table further discussion until later in the meeting.

[Five-minute break.]

PROPOSED BBER RESEARCH: JEFF MITCHELL, PHD, DIRECTOR, AND JULIAN BACA

Mr. Cummins stated that, in October 2017, he gave a presentation at the New Mexico IDEA conference and was asked how much demand there was for a program like the NMSBIC, and what opportunities were there for expanding it further if additional money was made available. Mr. Cummins said Dr. Mitchell was present today to discuss a proposed research study to

measure how much demand there is for the type of lending NMSBIC is doing, consistent with the risk profile of its existing lending partners.

Dr. Mitchell said he was proposing a three-part study that would look at the potential demand on an increased scale of what is being done now, with a new partner or an expansion of existing partners. The study would consist of a review and update of New Mexico's existing business community. It would include in-depth interviews with the NMSBIC's partner organizations and commercial lenders on where they feel the demands might be, with a survey targeting smaller businesses statewide, segmented by region, industry, size, age of business, and other data. BBER uses Reference USA, which has 92,000 businesses in its database. He said the study would take four to six months to complete and would cost about \$24,000.

Dr. Mitchell and Mr. Baca described how BBER would conduct the study and how they would determine demand among "loanable" businesses. They would talk to lending partners and commercial banks and ask key questions to get insight into whether or not a business is in need of funding and is a qualified borrower. Businesses with one to four employees would be considered.

**ACCION: PROPOSED INCREASE IN MAXIMUM FUNDING AMOUNT:
RAY ZILER, CHIEF FINANCIAL OFFICER**

Mr. Ziler was present with Controller Annalisa Anaya-Smith.

Mr. Cummins stated that, at the last board meeting, a proposed \$2 million increase in Accion's maximum funding amount was tabled. Mr. Cummins said Ms. Anaya-Smith did provide a response in writing to the NMSBIC Board's questions, which was detailed in the board package.

Mr. Ziler said Accion ended the year with a \$13 million portfolio in New Mexico, representing less than one-third of the total portfolio, and closed the year with 761 loans, in which the NMSBIC participated in 525. There has not been any significant change in the New Mexico charge-offs.

Mr. Cummins clarified that the focus of the NMSBIC Board was not so much on individual loan level risk, now that it has capped loan losses at 1 percent, but on evaluating the risk of Accion as an organization.

Mr. Ziler noted that Accion plans to promote some loan officers this year to a higher level, and has created a position of "loan operations manager," who will oversee lending. Accion also has an advisory board with people from banks who help review loans, and is in the process of expanding origination of SBA loans as part of its strategy to diversify.

Responding to Mr. Garcia on what the demand is for loans, Mr. Ziler responded that they have been resource constrained as opposed to demand constrained. In 2018 they plan to transition to a new computer system, which is expected to improve efficiency.

Mr. Ziler said Accion is turning down more applications than it did five years ago. He said Accion is trying to stay true to their mission by allowing smaller loans while balancing that out with some larger loans to help subsidize their operations.

Mr. Ziler said Accion estimates that it has created 950 jobs in New Mexico based on the number of loans and money funded.

[Mr. Ziler and Ms. Anaya-Smith left the meeting.]

ACTION FROM TABLED ITEMS

Mr. Cummins said the two items pending action were requests by New Mexico Community Capital (NMCC) and New Mexico Gap Fund I. Also on the table was Accion's request. The BBER study was lower priority and did not require action today.

Chairman Fowler said the questions for the board were whether extending either fund was time and money well spent; and if so, what would be a prudent length of time.

Mr. McDonald stated that extending either fund for three years would be binding on the board/organization, but could also be terminated with 72 percent of the limited partners.

Mr. Cummins commented that both Chris Traylor and Michael Schafer had originally planned to propose one-year extensions. During the informal meeting with Mr. Traylor and a small group of the NMSBIC Board members, Chairman Fowler had talked about his experience being on a different board for year when he was the sole member and could not make any decisions. All of the other members had resigned after the election of a new governor and had not been replaced.

Chairman Fowler added that there is a learning curve for new members under an incoming administration, and it could take some time before members were comfortable enough to make major decisions.

Mr. Eichenberg moved to approve a two-year extension for the New Mexico Gap Fund I subject to review of the appropriate legal documentation. Mr. Morgan seconded the motion, which passed unanimously.

Mr. Garcia moved to approve a one-year extension for New Mexico Community Capital from July 1, 2018 to June 30, 2019, subject to review of the appropriate legal documentation. Mr. Eichenberg seconded the motion.

Responding to Mr. Eichenberg, Mr. Cummins said he felt that all of the other NMCC's smaller shareholders were supportive of Michael Schafer and his continuing to manage the fund. Without the NMSBIC's support, however, because it has a 48 percent share, NMCC would not be able to move forward. He said the necessary 72 percent share can be reached with NMSBIC in combination with all of the other smaller investors (with the exception of Sandia Pueblo), or with NMSBIC and Sandia Pueblo only. He added, though, that NMCC strives to reach 100 percent agreement and has achieved that in prior years.

Chairman Fowler said he was assuming that, based on the motion, the board feels comfortable that NMSBIC will benefit from ongoing participation from the fund manager, at least for the next year. Mr. Garcia said the fund manager has been operating in good faith, and he saw no reason to think anything would change in a negative way.

The motion passed unanimously.

Discussion/action on Accion's request and BBER's proposal was postponed to the next meeting.

EXECUTIVE DIRECTOR/INVESTMENT ADVISOR REPORT

[Report was in the packet for review.]

LEGISLATIVE UPDATE

Mr. Cummins reported that he monitored events throughout the recent 30-day session and saw nothing that would impact the NMSBIC.

NMSBIC COMMUNITY MEETING, APRIL 13-14, 2018: NEW MEXICO TECH INVENTORS AND ENTREPRENEURS WORKSHOP

Mr. Cummins discussed the agenda. He said the NMSBIC will be hosting the Networking Reception on Friday evening, and he would be presenting on Saturday morning along with John Garcia from SBA.

CHAIRMAN'S COMMENTS

None.

ADJOURNMENT

The meeting was adjourned at 12:45 p.m.



Alan Fowler, Chairman

4/13/18

Date