

MINUTES OF THE

NEW MEXICO SMALL BUSINESS INVESTMENT CORP.

March 18, 2016

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
Ms. Roxanna Meyers, Vice Chair (arrived later)
Mr. Joseph H. Badal, Past Board Chair
Mr. Lupe Garcia
Mr. Steven E. Morgan, Secretary/Treasurer
The Hon. Tim Eichenberg, New Mexico State Treasurer
Ms. Launa Waller

Members Excused

None.

Financial Adviser to Board

Mr. Russell Cummins

Board Legal Counsel:

Mr. Randy McDonald

Recording Secretary:

Ms. Charmaine Clair for Ms. Judith Beatty

Guests Present:

Mr. Jake Dopson, Pulakos CPAs
Mr. Tom Stephenson, Verge Funds
Mr. Lynn Carrozza, Rio Vista Growth Capital
Dr. Jeffrey Mitchell, BBER

REVIEW AND ACCEPTANCE OF AGENDA

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

REVIEW AND ACCEPTANCE OF BOARD MINUTES

Mr. Badal moved to accept the January 20, 2016, minutes, as submitted. Mr. Garcia seconded the motion, which passed unanimously by voice vote.

PROPOSED AUDIT AND TAX ENGAGEMENT LETTER, PULAKOS CPAS- -- JAKE DOPSON, PARTNER, PULAKOS CPAS

Mr. Cummins stated that Pulakos has done the NMSBIC's audited financial statements for eight years, and this will be the ninth. He added that, while Mr. McDonald does not believe the NMSBIC is required to follow the state's guidelines for external auditing work, the NMSBIC did rotate partners in year 7, when Jake Dopson took over partner Brad Steward's role.

Mr. Cummins noted that a recommendation was made a year ago to separate the audit services from the tax services. This was discussed again at the October 2015 meeting, at which time the Board decided not to make a change this year.

Mr. Dopson presented the proposed engagement letter for the coming year-end's external audit and tax work.

Ms. Waller moved to approve the engagement letter and authorize Steve Morgan to execute the letter as presented. Mr. Badal seconded the motion, which passed unanimously by voice vote.

FINANCIAL REPORTS JANUARY 31, 2016 AND FEBRUARY 29, 2016

Mr. Cummins presented highlights from this report.

- Net income from operations was ahead of budget by \$1,898 MTD and \$24,869 YTD.
- Change in net assets was positive \$15,971 MTD and positive \$103,757 YTD.

-- Funds available for investments was \$2,575,559 as of February 29, “after” the \$700,000 cash reserve designated by the board for operational expenses.

Mr. McDonald said he is seeing personal loan offers ranging from \$50,000 to \$75,000 from SoFi at relatively low interest rates, of 4 to 7 percent.

Mr. Cummins commented that payday loans for consumers have moved into the business space. Even with seemingly low interest rates, the fees are high and ultimately the borrower can be paying a very high effective rate. He said Accion has an unsecured loan program with most loans less than \$4,000. Although the interest rate on those is in the teens, a loan from Accion can be significantly cheaper than from “payday” loan business lenders.

Ms. Waller moved to accept the financials, as presented. Mr. Badal seconded the motion, which passed unanimously by voice vote.

NEW MEXICO GAP FUND, MANAGEMENT FEE AND FUND EXPENSES
-- CHRIS TRAYLOR, VENTURE PARTNER, FLYWHEEL VENTURES

Mr. Cummins introduced Mr. Traylor. He stated that, two years ago, the proposal was to approve three years of management fees and three years of expenses. The Board decided to approve one year at a time and asked for an update each year to decide whether to approve one year of management fees and expenses.

Mr. Cummins said a non-quorum group of the NMSBIC Board met with Mr. Traylor yesterday to review and ask detailed questions about the companies in the portfolio.

Mr. Cummins said yesterday’s meeting with Mr. Traylor was helpful and informative, and today he will give an update on the New Mexico Gap Fund and review his proposal to approve a \$50,000 management fee and increased expenses for a year.

Mr. Traylor made a presentation on the NM Gap Fund portfolio companies and the value-add that the Fund brings to those companies. He reviewed examples.

Mr. Traylor said he asked Mr. Cummins to reach out to the CEOs of the portfolio companies in the NM Gap Fund, as he thought it was important for the NMSBIC to get an impression of how those companies felt about the Fund.

Mr. Cummins stated that he spoke with the CEO of Cinnafilm, who told him that having Mr. Traylor work with him over the past couple of years has been of tremendous

benefit. Given demands on his time, assistance from Mr. Traylor has been very beneficial. Mr. Traylor has helped with developing policies and procedures, advising them to obtain audited financial statements, identifying potential buyers of the company, evaluating timing of a sale to maximize value, and also has attended trade shows to learn more about the niche space that Cinnafilm is in.

Mr. Cummins stated that, after Mr. Traylor exited the meeting yesterday, the group discussed Cinnafilm's success and their need for additional funding and whether there was anything they could do to assist. He said NM Gap Fund hasn't been able to invest additional monies in its portfolio companies because the limited partnership agreement has a cap of \$200,000 per company. By raising the cap to \$300,000 or \$325,000, NM Gap Fund would be able to do a follow-on investment in this company that has proven to be successful. He noted that NM Gap Fund has \$279,000 in available cash.

Mr. Badal discussed possibly guaranteeing a line of credit. He said with the receivables they would be looking at \$100,000 line, instead of investing into the company. There could be middle ground and he would avoid long-term investment and the bank would be doing the work.

Mr. Cummins said he would meet with Mr. Traylor to discuss possible options and report back at a future meeting or special meeting.

Mr. Badal moved to approve one additional year of management fees of \$50,000, and an additional \$8,000 in expenses. Mr. Morgan seconded the motion, which passed unanimously by voice vote.

Mr. Cummins said the original partnership agreement called for three one-year extensions, and today the Board granted the third extension. He said March 1, 2017 would be the final end date with all of the extensions, after which the limited partnership agreement would have to be amended.

Mr. Badal suggested that, if there is discussion about amending the limited partnership agreement to raise the funding cap above \$200,000, that would be a good time to discuss extending the fund as well.

EXECUTIVE DIRECTOR / INVESTMENT ADVISOR REPORT

Highlights from Mr. Cummins's report:

-- Both Accion and The Loan Fund show about 24 months of capacity, but the calculation could quickly change if they were to fund a few large loans.

-- At the last meeting, the Board asked whether the NMSBIC's lending partners have loans in oil-producing areas. Mr. Cummins provided feedback, noting that the number of loans in oil producing areas is not significant, and does not appear to pose a risk to any of our lending partners. None of the loans funded with NMSBIC funds are delinquent.

-- At the last meeting, the Board also asked whether the NMSBIC's lending partners' customer rates are tied to market rates. Mr. Cummins provided feedback that none of the lending partners' customer rates are tied to market rates. It was noted that if there were a significant increase in market rates, they would reevaluate. Mr. Cummins noted that The Loan Fund had recently made adjustments to its loan pricing, but it was not related to market interest rates.

-- Mesa Capital Partners, New Mexico Growth Fund II is closed and the final distribution of cash, as well as final tax forms, have been received.

-- New Mexico Community Capital fund manager Michael Schafer will attend the May meeting to propose another one-year extension, as allowed for under the limited partnership agreement. This would be the second of three provided for under the limited partnership agreement.

-- The Joint Powers Agreement with the NMSIC has been approved and is awaiting DFA Secretary Tom Clifford's signature after a suggested language change relating to the reference that quotes the NMSIC's authority to enter into this type of agreement. DFA wanted to reference a broader state statute. Mr. McDonald had no problem with the change to the reference.

[Break.]

**RIO VISTA GROWTH CAPITAL, LOAN PROGRAM PARAMETERS AND
FUNDING LEVEL – LYNN CARROZZA, MANAGING MEMBER, RIO
VISTA GROWTH CAPITAL**

Mr. Cummins stated that Mr. Carrozza feels there is a great need for mezzanine financing for companies that are past the startup phase, have sales, are successful, but

are not ready for traditional bank financing. Mezzanine finance provides funding for companies at this in-between stage, and Mr. Carrozza feels there is a lot of demand for this kind of financing.

Mr. Cummins stated that, at the last board meeting, Mr. Badal wondered if it would make sense to change Rio Vista's loan policy to require tangible collateral. Mr. Carrozza was invited to discuss this thought at today's meeting.

Mr. Carrozza provided an overview of the company in Rio Vista's portfolio. In the 16 months since making this loan, all of the goals set by Rio Vista for this company have proven true. These goals included positive EBITDA, proven business model, competent and trustworthy management, adequate margins, unique product or service and scalability. In the last calendar year, the company added 12 new customers and all revenues are from out of state. Wages are above average, and the employment base has grown by 29 percent.

Mr. Carrozza said Rio Vista conservatively projects 40 percent revenue growth for this company in 2016.

Chair Fowler asked Mr. Carrozza if banks are loosening up requirements for companies of this size or smaller. Mr. Carrozza responded that he did not have direct knowledge of that, but added that the company will not need bank financing for another couple of years.

Mr. Carrozza said he thought that Rio Vista has a good, prudent model and there are probably half a dozen to a dozen companies in New Mexico that could benefit from it. He stated that loan size would range from \$500,000 to \$1.5 million.

Mr. Carrozza stated that Rio Vista is building capital; and while they are not making distributions to the members, they are reimbursing them for out-of-pocket expenses and federal tax payments.

Chair Fowler commented that Rio Vista has been very mindful of the NMSBIC's position and its philosophical change in the way it uses its capital, and designed this in such a way that it did address a lot of the NMSBIC's concerns.

Mr. Cummins said there was discussion at the last board meeting about whether it would make sense to require tangible assets as collateral, which would be a change to Rio Vista's current policy.

Mr. Carrozza stated that he did not have enough information at this point to know whether the companies he was talking with had hard assets that could be used as collateral.

Mr. Badal asked Mr. Carrozza if Rio Vista could operate under those more restrictive conditions, and Mr. Carrozza responded that he thought so, but we would need to define tangible collateral. He said he would have to investigate this, but felt there were more companies like the one Rio Vista is currently invested in, in terms of owning hard assets that could be collateralized.

Responding to Mr. Garcia, Mr. Cummins said the NMSBIC has \$2.5 million available, and while he does not expect any immediate requests from Accion or The Loan Fund for increases in their funding levels, there may be requests in the next 12 months. He said there could be additional funding coming in by the end of this year from a company in which two of the NMSBIC's equity partners are invested.

Mr. Carrozza clarified that his minimal request is for \$750,000 but he would prefer \$1 million.

Mr. Cummins said the existing loan to Rio Vista would mature on October 27, 2019.

The Board discussed increasing the loan to \$1.75 million.

[Further discussion on this item was deferred to later in the meeting.]

[Agenda was reprioritized.]

**BUREAU OF BUSINESS & ECONOMIC RESEARCH (BBER), PROPOSED RESEARCH
ENGAGEMENT REGARDING NMSBIC'S ECONOMIC IMPACT –
JEFFREY MITCHELL, PH.D., DIRECTOR, BBER**

Mr. Cummins stated that an NMSBIC legislative working group met in January, which resulted in a recommendation that the NMSBIC develop an independent and credible evaluation of the NMSBIC's impact on the New Mexico economy, and then work to improve awareness of the NMSBIC's impact with the Governor's office and key legislators.

Mr. Cummins stated that, on March 3, he and Chairman Fowler met with Dr. Jeffrey Mitchell, Director of the Bureau of Business and Economic Research (BBER), who stated

that this type of research fits perfectly with BBER's experience and capabilities. Understanding the desire of NMSBIC to proceed in steps, Dr. Mitchell said BBER would prepare a proposal to conduct a preliminary assessment and develop a scope of work to outline a possible path forward.

Dr. Mitchell said he saw four possible aspects to this:

- What is the economic impact of what NMSBIC does on the state? An economic impact statement would look at employment, labor income, fiscal impacts to state and local governments, etc. It will be important for NMSBIC to develop a clear, transparent and authoritative metric. The NMSBIC's operation is complex, as its impact is the aggregation of the activities of the people directly and indirectly funded by it.

- With little additional effort, BBER can get marginally less expensive information and do a deeper analysis, which would involve breaking down activity in terms of geography, industry, ownership, etc., to present a broader picture of who has benefited from the activity.

- Using this information, BBER can analyze where there might be missed opportunities or new opportunities that might arise in the future, breaking it down by types of businesses, competitors, regional areas, and where financing is becoming available.

- The possibility of creating a system going forward, to create a database and an integrated system where NMSBIC would be getting reported data from end users.

Dr. Mitchell stated that the cost to conduct this initial work would be \$4,000, giving BBER a month to scope things out, review possible metrics, and return to the Board with a plan.

Mr. Badal said NMSBIC needs to know what the real value of its existence is, and what has it done up to this point, so it can use that information as a foundation to make a proposal to the state about how it funds itself going forward. If in fact NMSBIC has had a beneficial impact on the state of New Mexico, what is the opportunity cost going forward if it doesn't get additional funding. Put another way, what could NMSBIC do differently if it had another \$10 million, or what amount of money is needed for NMSBIC to maximize opportunities that might be available down the road.

Dr. Mitchell stated that he would have a contract prepared between BBER and NMSBIC. Mr. Cummins suggested that any motion for approval include authority for Chairman Fowler to sign the contract.

Mr. Badal moved that the Board commit to a \$4,000 expenditure to start the process and to authorize Chairman Fowler to sign the contract. Ms. Waller seconded the motion, which passed unanimously by voice vote.

Dr. Mitchell stressed that cooperation with the NMSBIC's partners in gathering the necessary information will be crucial. Mr. Cummins responded that he has spoken with Leroy Pacheco at The Loan Fund and will be speaking with Accion as well.

Dr. Mitchell thanked the Board and left the meeting.

Board members discussed the idea of asking the lending partners, after this project has moved past this initial step, whether they would like to contribute part of the funding.

Mr. Badal suggested talking to all of the partners, including the equity partners, as this project would benefit everyone.

VERGE I AND VERGE I.5, PROPOSED LIMITED PARTNERSHIP AMENDMENTS – TOM STEPHENSON, VERGE FUND PARTNER

Mr. Stephenson presented slides. He said Verge has been raising additional capital to support a number of their existing portfolio companies, and have been talking with the State Investment Council about reinvesting in Verge. He said the NMSIC is proposing a \$2 million top-up investment into Verge I, which is their oldest fund and is in year 12. The NMSIC initially invested \$10 million in Verge I.

Mr. Stephenson presented the following proposed amendments:

1. Allow the NMSIC to make a \$2 million follow-on investment in Verge I. This would be 20 percent of the NMSIC's original commitment. The follow-on funding would be a preferred interest (would be paid back first) with a 1.5x liquidation preference. A \$2 million follow-on investment at 1.5x means that NMSIC would be repaid \$3 million and would be paid first upon any distributions. Other limited partners, including the NMSIBC, would have the option of joining in on the follow-on investment. Given that the NMSBIC's

original commitment in Verge I was \$1.8 million, NMSBIC would have the option to invest an additional 20 percent (\$360,000) with the same terms as the NMSIC'S follow-on investment.

2. Add an additional one-year extension to the Verge I limited partnership agreement. The current fund end-date, after all extensions, is June 17, 2017. The amendment would allow the fund to be extended, subject to approval by 67 percent of the LPs, to June 17, 2018.
3. The Verge I.5 Limited Partnership Agreement indicates that, for any follow-on investments in Verge I, Verge 1.5 will make a matching investment. Verge I.5 does not have the funds to do this and is requesting a waiver from making a matching follow-on investment in the Verge I companies, and is also requesting an extension to June 30, 2018.

Mr. Stephenson said Verge has agreed there will be no management fees or carried interest with the new capital.

Mr. Stephenson presented an update of two portfolio companies, Boom Time and Nuvita.

Mr. Badal said he learned yesterday that the new time paradigm for the life of venture funds has gone from 10 years to 14, new funds are looking at a 12-year window. He said he thought the extension made sense.

Mr. Stephenson said he expects to make a presentation at the May NMSIC meeting, by which time he is hoping to have up to 90 percent support from the limited partners.

Mr. Cummins said he thought this was a good investment with relatively low risk, but noted that the NMSBIC'S strategy is to grow its lending program and reduce concentration in equity investments. This is also not consistent with the NMSBIC'S goal to grow interest-earning assets to support the organization'S self-sufficiency.

Mr. Cummins recommended the following:

1. That the NMSBIC not participate in the follow-on investment, but to vote yes on the LPA amendment. Even without the NMSBIC'S investment, it will still be positive to the NMSBIC for these companies to get additional money to help them grow; and even though the NMSBIC'S investment will be diluted, the benefit from these companies having additional capital will likely be more than offset the dilution. While returns are uncertain, the additional money

for these companies will likely help them to grow, add jobs, and stimulate the economy.

2. That the Board vote yes on the Verge one-year extension.
3. That the Board vote yes on a “waiver” from Verge I.5 being required to match follow-on investments in Verge I companies.
4. That the Board vote yes to extend Verge I.5 to June 30, 2018.

The Board discussed scheduling a special meeting to formally vote on the recommendations.

LEGISLATIVE UPDATE INFORMATION

Mr. Cummins reported that the legislation the Board heard would be introduced in the last legislative session was not introduced, but there might be interest in pursuing it in the next session.

Mr. McDonald clarified that there is nothing in state law that would preclude the NMSBIC from hiring a lobbyist. There are some potential federal tax issues that would have to be addressed in the event that the Board decided to engage a lobbyist, but that those can be discussed further when and if the Board decides to engage a lobbyist. .

US BANK DEPOSIT ACCOUNTS, RECOMMENDATION TO CLOSE ACCOUNTS

Mr. Eichenberg moved to approve closure of the US Bank deposit account. Mr. Badal seconded the motion, which passed unanimously by voice vote.

STATE INVESTMENT COUNCIL CORE PLUS BOND POOL – INVESTMENT RECOMMENDATION

Mr. Cummins stated that, based on his cash flow projection (page 47), he recommends that, subject to final approval of the Joint Powers Agreement with the State Investment Council, the Board approve investing \$3 million in the US Core Plus Bond Pool.

Mr. Badal so moved. Mr. Morgan seconded the motion which passed unanimously by voice vote.

NMSBIC ANNUAL CHECKLIST INFORMATION

[Informational.]

2016 NMSBIC BOARD MEETING DATES

[Informational.]

BOARD CONTINUING EDUCATION (DEFERRED) INFORMATION - DEFERRED

DISCUSSION ON RIO VISTA (Cont'd)

Mr. Cummins discussed companies in New Mexico Mezzanine Fund's portfolio and any prospects for being paid out of their cash flow in the near future.

Mr. Cummins suggested that the Board step back and look at mezzanine as a percentage of its balance sheet. This is a riskier asset than what the NMSBIC is doing with The Loan Fund and Accion. He said having a relatively small percentage of its balance sheet in this type of asset is reasonable; there is a higher risk, but also a higher return.

Mr. Badal suggested that the first deal made with Rio Vista doesn't strictly qualify as a mezzanine loan because Rio Vista holds the first debt position.

Mr. Cummins said he thought it met the mezzanine definition because it was well established with a healthy cash flow but wasn't ready yet for bank financing.

Mr. Badal recalled, though, that the Board approved the Rio Vista deal because it was patterned right after what they did with the New Mexico Community Development Loan Fund. He said it is just a bigger deal and is a secured line of credit and is in the same class as Accion and The Loan Fund.

Mr. Cummins noted that Rio Vista's investment policy allows them to do junior liens. If a company obtains traditional bank financing, Rio Vista might subordinate its senior lien, and take a junior lien position.

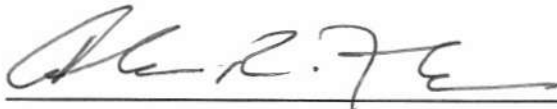
Mr. Badal suggested the following: the NMSBIC would be prepared to advance another \$750,000 contingent on no more junior lien positions, and amending the current agreement on the present loan to preclude the NMSBIC being in a junior lien position. Funding above the additional \$750,000 would become available as the NMSBIC receives payments from the New Mexico Mezzanine Fund.

CHAIRMAN'S COMMENTS

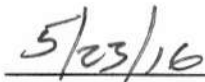
There were none.

ADJOURNMENT

Its business completed, the NMSBIC Board adjourned the meeting at 1:25 p.m.



Alan Fowler, Chairman and President



Date