

**MINUTES OF THE**

**NEW MEXICO SMALL BUSINESS INVESTMENT CORP.**

**April 3, 2017**

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 [arrived 11:15 a.m.]

Mr. Joseph H. Badal, Past Board Chair [by telephone, signed off 11:35 a.m.]

The Hon. Tim Eichenberg, New Mexico State Treasurer [left 11:15 a.m.]

Mr. Guadalupe Garcia

Mr. Steven E. Morgan, Secretary/Treasurer

**Members Excused**

Ms. Roxanna Meyers, Vice Chair

**Financial Adviser to Board**

Mr. Russell Cummins

**Board Legal Counsel:**

Mr. Randy McDonald

**Recording Secretary**

Ms. Judith Beatty

**Guests Present:**

Mr. Jake Dopson, Pulakos CPAs

Mr. Jim Scott, Applied Capital

Dr. Jeffrey Mitchell, BBER

Dr. Doleswar Bhandari, BBER

Mr. Julian Baca, BBER

**REVIEW AND ACCEPTANCE OF AGENDA**

**Mr. Eichenberg moved to accept the agenda, as published. Mr. Garcia seconded the motion, which passed unanimously by voice vote.**

**REVIEW AND ACCEPTANCE OF JANUARY 20, 2017 BOARD MINUTES**

**Mr. Morgan moved acceptance of the January 20, 2017 minutes, as submitted. Mr. Eichenberg 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 the proposed audit and tax engagement letter from Pulakos CPAs, as of and for the year ended June 30, 2017, was in the board packet for review. He recommended approval. The proposed services are unchanged, and the proposed fees are also unchanged at \$23,350 for audit services and \$3,850 for tax services, plus New Mexico gross receipts tax.

Mr. Dopson thanked the board for its confidence in the services provided by Pulakos, and stood for questions.

**Mr. Eichenberg moved to approve the engagement letter and to authorize Roxanna Meyers, NMSBIC Treasurer, to sign the engagement letter. Mr. Morgan seconded the motion.**

Responding to Mr. Badal, Mr. Cummins said he spoke with Mr. Dopson regarding the board's concerns about rotating auditors and its decision to move ahead with Pulakos. He said Mr. Dopson was very helpful in providing information requested by the board.

**The motion passed unanimously by voice vote.**

**FINANCIAL REPORTS AS OF JANUARY 31 AND FEBRUARY 28, 2017**

Mr. Cummins presented these reports, and stood for questions.

**Mr. Morgan moved acceptance of the financial reports, as presented. Mr. Garcia seconded the motion, which passed unanimously by voice vote.**

**APPLIED CAPITAL LLC, REQUEST FOR REVOLVING LINE OF CREDIT:**

**-- JAMES SCOTT, PRESIDENT**

Mr. Cummins stated that Mr. Scott made a presentation at the December board meeting regarding Applied Capital LLC's history doing Purchase Order and Accounts Receivable finance. The item was postponed; and Mr. Scott was present today to offer more information, respond to questions, and request a \$1 million secured line of credit from NMSBIC.

Mr. Cummins commented that it appears that Applied Capital would be filling a gap in financing that is not currently being filled by traditional bank financing.

Mr. Scott reported that, since December, he has “shaken the trees” in New Mexico to see what kind of business Applied Capital might be able to develop. Since then, the company has received about \$1.6 million in a combination of accepted proposals in the amount of about \$700,000, and some significant new business anticipated for an existing client who is a general contractor with cash flow issues.

Mr. Scott described, as an example, a local contractor who does restoration work that is ultimately covered by insurance, but it takes 60-120 days to get paid by the insurance company. He commented that the contractor’s issue is a good illustration of the way Applied Capital can help people who have cash flow issues.

Mr. Morgan asked if this would basically be a loan to Applied Capital. Mr. Scott responded yes, but that Accounts Receivable financing is technically the purchase of the account receivable, but it ends up acting more like a loan. He said it is not like a loan that is due at the end of the year; it is a percentage of their client’s eligible accounts receivable that they can have from Applied Capital in working capital to keep their business running. As long as the ratio stays “in formula,” where the money is in their working capital, it never has to be paid back. With Purchase Order financing, Applied Capital will have a first security interest in the inventory and materials, and when it becomes an account receivable to the customer, Applied Capital uses an advance against the accounts receivable to take out the purchase order financing and purchase order fees.

Mr. Scott stated that Applied Capital has a first position security interest in all of the money it has out, and in virtually all instances it is an all assets filing against the client company. If they are working with another lender, however, they will have a senior all assets filing and Applied Capital will have a junior all assets filing. He said they do no second liens.

Responding to concerns expressed by Mr. Garcia on what interest the NMSBIC would earn, Mr. Cummins said he sees the proposal being offered by Applied Capital as being higher risk and more in line with what NMSBIC is doing with Rio Vista Growth Capital than with The Loan Fund and Accion. While he and Mr. Scott have not specifically discussed an interest rate, Mr. Cummins said he thought Prime + 2 would be a rate that would work for Applied Capital. While that is a higher rate than the 2 percent being charged on loans to The Loan Fund and Accion, those loans are at lower levels of risk than what is being proposed here.

Mr. Badal said he assumed there would be more concentration of risk in each deal, and asked what the average loan amount would be per client. Mr. Cummins responded that Mr. Scott has indicated that his average balance is typically around \$50,000, but there are larger deals available and he would like to be able to have a maximum loan size (with funding from NMSBIC) of \$250,000.

Mr. Scott commented that Applied Capital has a mailing list it has never used with 535 subcontractors in New Mexico. He said he was convinced that the company could absorb another \$1 million in transactions were he to send postcards to all of these subcontractors. He said there are hundreds of companies in New Mexico that could benefit from this financing if they knew about it.

Mr. Eichenberg said he felt, for the NMSBIC to consider this type of lending arrangement, there should be at least a 50 percent net worth collateralization requirement in each deal Applied Capital would do with the NMSBIC.

Mr. Morgan expressed concern that the line of credit being requested by Mr. Scott would take up one-third of the NMSBIC's available capital for lending, leaving it fairly limited in terms of the kinds of demands that could come from existing clients.

Mr. Scott thanked the board for considering his proposal, and exited the meeting.

[5-minute break.]

Mr. Cummins said he and Mr. McDonald discussed this earlier. They felt that it is a riskier deal than what NMSBIC is doing with Accion and The Loan Fund, primarily because those lending partners have much stronger balance sheets and the NMSBIC is guaranteed against losses. However, since Applied Capital does not have a strong balance sheet, they discussed whether NMSBIC should have a net worth requirement for Applied Capital, so they would have "skin in the game" in every deal.

Mr. Badal said he would be more comfortable if Applied Capital were to concentrate exclusively on insurance-related rehab jobs, as there would be less risk for NMSBIC. He added that, because these loan amounts are typically higher than those done by Accion and The Loan Fund, there is the potential problem of one deal going bad, in which case NMSBIC would have no chance of recouping its principal through the proposed higher interest rate.

Board members said they were not comfortable with the concept behind this proposal because of the higher risk and complexity involved in this proposal. Mr. Cummins was asked to communicate to Mr. Scott that the board feels this type of lending is not a good fit for the NMSBIC.

**BUREAU OF BUSINESS & ECONOMIC RESEARCH (BBER), PHASE I REPORT AND  
POSSIBLE APPROVAL OF PHASE II AND/OR PHASE III: JEFFREY MITCHELL, PH.D.,  
DIRECTOR; JULIAN BACA, DATA MANAGER; DOLESWAR BHANDARI, RESEARCH  
SCIENTIST**

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Mr. Cummins noted that the key difference between the first draft submitted in January and the second draft now before the board is that some job numbers were added from

Mortgage Finance Authority activity. Other than that, the information and format are virtually the same.

Dr. Mitchell distributed additional information providing further detail on the proposed scope of work for the remaining tasks, as well as supplementary information requested by the board at the January meeting on estimated number of jobs created by SBIC investment activities from 2011 to 2015 and a breakdown of costs per job.

Mr. Cummins said the board had discussed whether it was appropriate to calculate the opportunity cost of what a job would have potentially earned if the money were invested with the NMSIC rather than being used to create jobs through the NMSBIC.

Mr. Badal commented that he felt it would be a valid comparison only if the NMSIC money were also used to create jobs.

Mr. Cummins recommended that the board accept the March 2017 report, as presented.

**Mr. Garcia so moved. Mr. Eichenberg seconded the motion, which passed unanimously by voice vote.**

Mr. Cummins stated that Part 1 of the BBER research project, the Economic Impact Analysis, has now been completed at a cost of \$40,000, with three parts remaining for the board's consideration. Parts 2-4 can be treated as "a la carte" items, with any or all of the parts available on a standalone basis.

- Part 2: Cost-Benefit Analysis by Geography, Industry, and Other Factors: \$20,000
- Part 3: An Assessment of Market Opportunities and Challenges: \$20,000
- Part 4: Development of Data Reporting and Dashboards: \$20,000

With respect to Part 2, Mr. Cummins noted that, based on the study, roughly two-thirds of the companies are sole proprietorships and one-third are corporations, and Department of Workforce Solutions (DWS) data was limited on the sole proprietorships. He said a lot of smaller loans are in smaller communities, and the larger loans tend to be in Albuquerque-Santa Fe. He wondered if the data would be limited outside of Albuquerque-Santa Fe, given DWS job information is not available for the sole proprietorships.

Mr. Baca responded that this was an accurate assessment. He said BBER would need to work with the NMSBIC's lending partners in data collection for Part 4. The question is whether the NMSBIC would maintain a system internally going forward and use self-reported data from its equity and lending partners, or whether it would continue working with BBER, which has access to information from the DWS database and other sources.

Mr. Cummins said he saw Part 3 as leading into strategic planning and ways of determining how NMSBIC could improve and have more of an impact.

[Chairman Fowler arrived.]

[Mr. Eichenberg exited the meeting.]

Responding to comments by Dr. Mitchell about ways the dashboards could be used, Mr. Cummins agreed it might be useful if NMSBIC could develop standardized metrics that all of its partners could use for reporting information about jobs.

[Mr. Badal signed off from the meeting after requesting that the board continue discussion on this topic at the May meeting.]

Mr. Cummins said he would like to talk to the lending partners about this project. He said he would also be interested in exploring whether there is interest among them in reporting data in a standardized way going forward, that might be used in a dashboard.

#### **LEGISLATIVE UPDATE**

Mr. Cummins presented this report, noting that the legislature did not consider or act on any bills this session that directly related to the NMSBIC.

#### **EXECUTIVE DIRECTOR/INVESTMENT ADVISOR REPORT**

Mr. Cummins stated that he was asked to provide information about Accion's loans, tiered by loan size, and has provided that information as part of his report. [Postponed to the May meeting.]

#### **2017 NMSBIC BOARD MEETING DATES, RESCHEDULE MAY 26, 2017 MEETING**

The meeting was tentatively scheduled on May 31.

#### **BOARD CONTINUING EDUCATION**

Mr. Cummins reviewed a CDFI Industry Analysis summary report prepared by the Carsey Institute.

#### **CHAIRMAN'S COMMENTS**

None.

**ADJOURNMENT**

Its business completed, the board adjourned the meeting at 12:00 p.m.



Alan Fowler, Chairman

5/31/17

Date