

MINUTES OF THE

NEW MEXICO SMALL BUSINESS INVESTMENT CORP.

April 26, 2019

A meeting of the New Mexico Small Business Investment Corporation was called to order on this date at 9:07 a.m. at South Valley Economic Development Center, 318 Isleta Blvd. SW, Albuquerque, New Mexico. A quorum was established after roll call.

Members Present

Mr. Joseph H. Badal, Chair

Ms. Roxanna Meyers, Vice Chair

Mr. Alan Fowler, Secretary/Treasurer

The Hon. Tim Eichenberg, New Mexico State Treasurer [arriving at 10:50 a.m.]

Mr. Guadalupe Garcia

Mr. Steven E. Morgan

Members Excused

None.

Financial Adviser to Board

Mr. Russell Cummins

Board Legal Counsel:

Mr. Randy McDonald [arrived later]

Recording Secretary

Ms. Charmaine Clair, for Judith Beatty

Guests Present:

Mr. Jake Dopson, Pulakos CPA

Ms. Dee Brescia, Accounting Contractor

Ms. Holly Bradshaw-Eakes, The Holly Company

REVIEW AND ACCEPTANCE OF AGENDA

The Adoption of NMSBIC Accounting Method and the Approval of the External Audit Engagement Letter were moved to after the break.

Mr. Cummins stated that New Mexico Community Development Loan Fund, Proposed Loan and Proposed Change to Loan Agreement has been tabled.

Mr. Garcia moved acceptance of the agenda, as amended. The motion was seconded by Mr. Morgan and passed unanimously.

REVIEW AND ACCEPTANCE OF FEBRUARY 22, 2019 BOARD MINUTES

Mr. Morgan moved acceptance of the February 22, 2019 minutes as presented. Mr. Garcia seconded the motion, which passed unanimously.

LEGISLATIVE UPDATE

Mr. Cummins presented the following update:

- Senate Bill 10, raising the NMSBIC's share of the Severance Tax Permanent Fund from 1 percent to 2 percent, was passed and signed by the Governor.
- The bill received unanimous do pass in both Senate committees and unanimous yes vote on the Senate floor.
- The bill also passed in one House committee, and on the House floor. The votes appeared to be along party lines in the House.

Mr. Cummins said the increase is anticipated to be about \$50 million in additional funding for the NMSBIC, and he expects the NMSBIC will receive the transfer in December or January. He would recommend that the NMSBIC invest funds with the SIC until they are deployed, but suggested reevaluating its investment allocation as that time draws near. Currently, all of its money with the SIC is invested in bonds, but there are other possible options.

Chairman Badal commended Mr. Cummins for his hard work with this legislation. Without his testimony, it might not have passed so easily.

FINANCIAL REPORTS AS OF FEBRUARY 28, 2019 AND MARCH 31, 2019

Mr. Cummins presented an overview.

Mr. Cummins noted a decline in equity investments from \$9 million to \$7.5 million from several funds, due to write-downs of various portfolio-company investments held by the funds.

Chairman Badal said he continues to support the board decision made several years ago to be more judicious in how the NMSBIC invests funds and that it should not be making venture capital investments with taxpayer funds.

Mr. Cummins reported total funds available for investment at \$9.2 million.

Mr. Fowler moved to approve the Financials, as presented. Mr. Garcia seconded the motion, which passed unanimously.

EXECUTIVE DIRECTOR/INVESTMENT ADVISOR REPORT

Highlights from report and discussion:

Accion

-- Updated charge-off information that Mr. Cummins requested from Accion for Q1 2019 is not yet available. He recommends that the board continue monitoring Accion's charge-offs before considering Accion's requested \$2 million increase in the maximum funding amount. Accion indicated they have tightened their underwriting standards, but it will take some time before those standards have an impact on charge-offs.

Ms. Meyers commented that this is the nature of Accion's business, however, which is making small loans to small businesses with higher risk profiles. She said the best NMSBIC can do is attempt to mitigate risk.

Chairman Badal said he continues to hear that there are perfectly good bankable loans that banks won't do today. The Loan Fund has been going after that sweet spot, and perhaps Accion should also, since it appears there is more demand than money to satisfy those needs.

Mr. Cummins noted that since 2013 Accion has made several loans in the NMSBIC portfolio with amounts over \$100,000, and with zero charge offs; the majority of charge-offs are on Accion's smaller loans. The NMSBIC's current agreement with Accion has a cap on charge-offs passed through to NMSBIC of 1% per year, which mitigates the NMSBIC's charge-off risk, and provides a net rate to NMSBIC after charge-offs of 2%.

Chairman Badal recommended further discussion on this topic at the next meeting.

Flywheel Ventures

-- As of December 31, 2018, the NM Gap Fund recorded a negative investment valuation for one of its remaining companies. In April 2019, Chris Traylor indicated that initial talks with a buyer about a possible sale had fallen through. While the company is having discussions for a sale with other potential buyers, the discussions are now at a lower sales price that would produce little or no value to the NM Gap Fund. Mr. Traylor said they would likely write this investment down to \$0 in the next quarter. The limited partnership is scheduled to terminate on February 28, 2020. Although Mr. Traylor originally indicated they would likely request another one year (or more) extension, an extension might not be needed with only one active company remaining that is likely to provide value.

New Mexico Community Capital

- As of December 31, 2018, NMCC reduced the fair market value of one of its remaining active companies from \$2.3 million to \$1.1 million, a reduction of \$1.23 million. The NMSBIC's 47.78 percent share of the reduction in value was about \$588,000. The Limited Partnership is scheduled to terminate on December 31, 2019, and Managing Director Michael Schafer is working on selling or winding down NMCC's remaining investments. For one active company that is expected to provide value, terms of a sale being discussed might provide NMCC with stock instead of cash.

- Mr. Schafer is interested in the idea of creating a royalty fund and may approach the NMSBIC to discuss this further.

SIC Core Plus Bond Pool

- The value is \$11.834 million versus \$11.0 million in original net principal invested.

Bank Regulatory Environment

-- Mr. Cummins recently met with Jerry Walker, president of the New Mexico Independent Bankers Association, to see if there has been any loosening of lending standards by the federal government. Mr. Walker said there appears to be relatively low demand among banks from customers that qualify for traditional bank loans. He had a recent discussion with a community banker that specializes in a certain type of lending, who said they received criticism from regulators for having a concentration of loans in that area. His sense is there is low demand for qualifying loans, and the lending environment may still be somewhat restrictive.

New Mexico Economic Development Department

-- At the last board meeting, Johanna Nelson of the New Mexico Economic Development Department (NMEDD) made a presentation regarding the NMEDD's Collateral Enhancement Program. On March 22, Mr. Cummins met with Ms. Nelson and Economic Development Secretary Alicia Keyes. They discussed how the NMSBIC and NMEDD might be able to collaborate. Secretary Keyes said a key focus of NMEDD is on "outdoor recreation." She said she would brief her staff on the NMSBIC's lending program, and look for ways to collaborate.

INDEPENDENT COMMUNITY BANKERS ASSOCIATION, ASSOCIATE MEMBERSHIP

Mr. Cummins recommended the NMSBIC join the ICBA as an Associate Member. The cost is \$500 per year, with additional registration fees for attending meetings and conferences. Their annual meeting will be held July 25-28 at Sandia Resort and Casino in Albuquerque. ICBA president Jerry Walker has suggested that Mr. Cummins serve on a lending panel at the ICBA's lenders conference, which is scheduled for September 19-20 at the Albuquerque Marriott.

Mr. Cummins stated he had discussions with Mr. Walker about having banks support the New Mexico CDFIs, and possible opportunities for the NMSBIC to participate in community bank loans. Mr. Walker supported Senate Bill 10 during the legislative session, and stated the CDFIs that the NMSBIC works with are an important part of the overall lending structure in New Mexico.

Ms. Meyers wondered if this membership might offer opportunities for the NMSBIC to develop some scholarships for CDFIs. Mr. Cummins agreed to research this.

Mr. Fowler moved to approve NMSBIC joining the Independent Community Bankers Association. Mr. Garcia seconded the motion, which passed unanimously.

SENATE MEMORIAL 119 – RETIREMENT SECURITY CRISIS

Mr. Eichenberg discussed Senate Memorial 119, proposing that the State Treasurer's Office (STO) devise an implementation plan to establish the recommendations of the 2017 Retirement Income Security Task Force. This would allow STO to create the foundation for an employer

savings program for employees that would be managed by PERA through a payroll deduction program that would go into a STO investment pool.

Mr. Eichenberg stressed that this program is strictly voluntary by the employer and employee, and is only a memorial. It may become statutory next year, when it is reintroduced in the legislature. After five years, it would become mandatory for New Mexico employers to offer some kind of savings (payroll deduction) program for their employees, provided the employee requests it. He noted that 67 percent of employees in New Mexico do not have access to an employer retirement savings program.

Mr. Eichenberg said there is no liability for the employer.

ADOPTION OF NMSBIC ACCOUNTING METHOD: JAKE DOPSON, PULAKOS CPAS

Mr. Cummins said he felt the NMSBIC should consider adoption of the GASB accounting method beginning with the upcoming fiscal year.

Mr. Cummins stated that, from inception through 2016, the NMSBIC used the FASB accounting method, under which equity investments were reported at fair value. In 2017, GASB began requiring companies such as the NMSBIC to start using GASB. Under GASB, however, the board would be required to report equity investments at historical cost rather than fair market value. Given the NMSBIC's history of large equity investment losses, it was believed that continuing to report equity investments at fair market value made more sense. In addition, Mr. Cummins was concerned that reporting under GASB would have required the NMSBIC to carry and defer losses for a longer period, and report them later rather than sooner. He said those funds are now closed, and the deferred losses are no longer appear to be an issue. As of June 30, 2017, the NMSBIC instead decided to adopt the American Association of Certified Public Accountant's Financial Reporting Format for Small Medium Sized Entities (FRF for SMEs) accounting framework as an alternative to GASB, which allowed it to continue reporting equity investments at fair value, as it had in all years prior to 2017.

Mr. Cummins stated that the NMSBIC has recently received communications from the Department of Finance and Administration (DFA); CliftonLarsonAllen (CLA), the state's external auditor; and the State Investment Council (SIC), all of which believe the NMSBIC should consider adopting GASB beginning in the next fiscal year. While CLA did state in 2017, before the NMSBIC adopted FRF from SMEs, that they did not have an issue with FRF for SMEs, they now state that this presentation would not allow them to report the NMSBIC as a component unit in the state's CAFR, adding that the NMSBIC is not material to the state's CAFR and it would not affect their opinion on the state's audit. The SIC has "firmly suggested" the NMSBIC use GASB, feeling that their accounting method and the NMSBIC's need to be consistent given that they are consolidated by the SIC.

Ms. Meyers asked Mr. Dopson if we would be able to footnote the actual equity value of the NMSBIC's investments in its reports going forward based on the reported numbers from the equity partners. Mr. Dopson responded that yes, we would be able to include a footnote disclosing the fair market value of the equity investments.

Chairman Badal asked if adopting the new cost method would reflect all losses through FY 2019. Mr. Cummins referred the Board to the chart, "cumulative loan income (loss) and change in equity investment value" on page 39 of the board book and stated that he applied the new cost method the numbers and calculated a rough estimate of \$6 million, which would be an estimated write-down of about \$1.75 million, versus a the current fair market value of \$7.75 million. He stated that Mr. Dopson is continuing to work on accounting guidance that would apply to the NMSBIC for applying the cost method, which will allow us to provide a more accurate estimate of the impact.

Chairman Badal proposed that the board vote to adopt GASB methods for this year contingent upon Pulakos being able to satisfy itself that all of the numbers it needs to have are in hand and that they can issue financial statements according to GASB in a timely way. If for some reason there is an obstacle to that, the board would delay conversion to GASB by one year, and convert to the new method in 2020. He expressed concern that the NMSBIC not be late with its audit, and the importance of the quality of the audit.

Mr. Dopson said he felt sure Pulakos could get work done this fiscal year.

Mr. Fowler moved, seconded by Mr. Morgan, that the board move forward and adopt GASB accounting methods contingent upon the auditing firm's ability to issue a timely audit for fiscal year ended June 30, 2019. If there is an issue with respect to the timeliness of that audit, the adoption of GASB procedures would be postponed until fiscal year 2020. The motion passed unanimously.

NEW APPROVAL OF 2019 EXTERNAL AUDIT ENGAGEMENT LETTER

Mr. Dopson submitted his engagement letter.

Mr. Cummins recommended adoption of the audit engagement letter. The proposed charges for audit and tax services are the same at the previous year, with an additional \$4,000 fee for conversion to GASB, which provides for Pulakos to contract with a third-party CPA firm to assist with the GASB conversion.

Mr. Eichenberg moved, seconded by Mr. Morgan, to adopt the audit engagement letter that includes an additional \$4,000 for the contract with the GASB auditor. The motion passed unanimously.

SCHEDULE PLANNING MEETING FOR DEPLOYMENT OF ADDITIONAL FUNDING INFORMATION

Mr. Cummins stated that Ms. Meyers thinks the board should devote additional time to discuss deployment of additional funding.

Chairman Badal suggested adding the discussion to the end of the next board meeting and including lunch (Friday, June 21).

BOARD CONTINUING EDUCATION – REQUIREMENTS FOR COOPERATIVE AGREEMENT PARTNERS

Mr. Cummins stated that, at the last meeting, Mr. McDonald was asked to look at requirements for Cooperative Agreement Partners, specifically, if the NMSBIC's lending partners are required to be located in New Mexico.

Mr. McDonald said that, under the Act, a New Mexico business is a business with its principal office and a majority of its full-time employees located in New Mexico. It does not require that a cooperative agreement partner be a New Mexico business, but that the equity investments made by the cooperative agreement partner are made in New Mexico businesses.

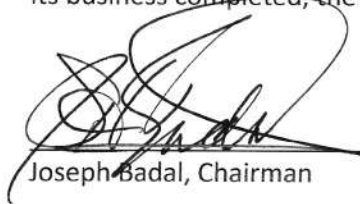
CHAIRMAN'S COMMENTS

None.

Ms. Bradshaw-Eakes, present as a member of the public, said she wanted to acknowledge what a wonderful job Mr. Cummins did at the legislature. She added that she wanted to be more in touch with the board as they get their funding, so a comprehensive marketing plan can be developed.

ADJOURNMENT

Its business completed, the NMSBIC Board adjourned the meeting at 11:25 a.m.



Joseph Badal, Chairman

June 21, 2019

Date