

MINUTES OF THE

NEW MEXICO SMALL BUSINESS INVESTMENT CORP.

May 20, 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 (telephonically)
Mr. Joseph H. Badal, Past Board Chair
Mr. Lupe Garcia
Mr. Steven E. Morgan, Secretary/Treasurer
The Hon. Tim Eichenberg, New Mexico State Treasurer

Members Excused

Ms. Roxanna Meyers, Vice Chair
Ms. Launa Waller

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. Lynn Carrozza (telephonically)
Mr. Julian Baca, BBER
Mr. Tom Stephenson, Verge Fund
Mr. Bill Bice, Verge Fund
Mr. D'Artagnan Balink, Pueblo of Sandia

REVIEW AND ACCEPTANCE OF AGENDA

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

REVIEW AND ACCEPTANCE OF BOARD MINUTES

Mr. Morgan moved approval of the March 18, 2016, minutes, as submitted. Mr. Badal seconded the motion, which passed unanimously by voice vote.

RIO VISTA GROWTH CAPITAL, PROPOSED CHANGES: LYNN CARROZZA, MANAGING MEMBER, RIO VISTA GROWTH CAPITAL

Mr. Cummins said the board held a non-quorum phone call with Mr. Carrozza approximately ten days ago to discuss an increase in the line of credit and possible changes to the Rio Vista Growth Capital loan policy. At the last board meeting, there was discussion about whether the board should eliminate the provision that would allow Rio Vista to make junior liens.

Mr. Carrozza discussed why junior liens still make sense for the fund. He said Rio Vista is in agreement to have the senior loan position at the beginning of the loan. They anticipate a 3-5 year term loan with a client, but need flexibility during the term to allow the bank to provide a new senior lien at a later date because additional working capital might be needed. He explained that Rio Vista's ability to close the loan could be problematic if the client feels there is no possibility of additional financing at a later date. He added that, as the loan reaches maturity, Rio Vista may want a bank to have experience with their customer and be in a knowledgeable position to fully pay off Rio Vista's loan.

Chairman Fowler stated that, if a position is taken senior to NMSBIC, he is assuming Mr. Carrozza would be able to approve a lien that would be senior to Rio Vista's position. Mr. Carrozza responded yes.

Mr. Cummins reviewed proposed changes to the NMSBIC's loan with Rio Vista Growth Capital, and Rio Vista's loan program parameters:

-- Subordinate Secured Loan Requirements: For new loans originated after the effective date of the amendment, the combined first and second lien Loan-to-Value,

which includes RVGC loan principal and deferred interest, must not exceed the sum of 100% of current assets plus 80% of current assets.

-- Interest Rates and Payments: Interest paid by a Portfolio Company may be deferred for the first 6 to 12 months. Thereafter, up to 50% of the interest accrued on the Portfolio Company loan may be deferred for the term of the Portfolio Company loan.

Responding to Mr. Morgan, Mr. Cummins said Rio Vista is requesting that the maximum loan amount be increased by \$1 million (from \$750,000 to \$1,750,000), which would come out of the \$2.6 million set aside by NMSBIC for new investments. The proposed \$1 million in additional funding would mature seven years from the date it is issued.

Responding to a question, Mr. Cummins said the NMSBIC receives one-half of the interest paid by the portfolio company to Rio Vista. 3 percent is paid current to NMSBIC, and the balance is deferred until maturity or payoff.

Mr. Badal asked if it would make more sense to have two loans. Mr. McDonald responded that there would be more legal costs because new documents would have to be drawn up.

[Mr. Carrozza signed off from the meeting.]

Mr. Badal said the ad hoc committee discussed the prospects of Mr. Carrozza finding additional loans, and suggested the board discuss this further.

Mr. Cummins stated that Mr. Carrozza indicated there could be four, five or possibly six deals that are potential candidates for mezzanine loans from Rio Vista. Mr. Carrozza hasn't gone too far into due diligence with those companies, but is keeping in touch with them.

Mr. Badal said he understands what Mr. Carrozza is trying to do, which is to make these deals bankable, but that immediately puts NMSBIC in a subordinate position. He said he had suggested to Mr. Carrozza that the NMSBIC would not do this on an unsecured basis, even if it were in a subordinate position, so there would have to be an abundance of collateral.

Mr. Badal suggested that the only way the board should agree to a subordinated position is if all deferred interest is paid back to the NMSBIC and no interest can be

deferred going forward on that account. He pointed out that any company Mr. Carrozza refers to a bank is going to be in a very solid position to pay it back.

Mr. Garcia suggested that if the NMSBIC wants to re-lend any money to Rio Vista, it could do that based on performance, noting that the NMSBIC's level of risk goes up dramatically once it is in a subordinate position.

Mr. Badal suggested that this be done on a case-by-case basis rather than create a policy around it.

Responding to a question from Mr. Garcia, Mr. McDonald noted that, under the current note, if Rio Vista gets repaid the principal from the borrower, they have to pay that to NMSBIC, and it is then available to Rio Vista again to make a loan to another company.

Mr. Garcia said he was comfortable with the revolving line of credit arrangement because NMSBIC would be aware of any reassignment of the money by Rio Vista.

Mr. Badal recommended that Rio Vista be required to pay the NMSBIC's legal fees for the revision of the agreement, up to a certain amount. This should also include recording fees and associated fees.

Mr. Badal commented that this board has worked over the past three or four years to tighten up every agreement the NMSBIC has, and this is another example of that. He said it's the NMSBIC's job to protect the taxpayers' money, and if someone wants to make a change to an agreement they have with NMSBIC, they should pay the cost.

Mr. Badal said he would like to establish some language about collateral and to put a limit on the NMSBIC's exposure. Collateral should be hard assets and not intellectual property.

Mr. Badal suggested Mr. Cummins write up a proposal and forward it to board members for review.

Chairman Fowler recommended that the board schedule a special meeting in June to consider the proposal.

Board members agreed on the following:

-- Add language requiring deferred interest to be repaid at the point a Rio Vista loan becomes subordinated, with no deferred interest going forward. Rio Vista may not re-lend money to the same entity.

-- Rio Vista will pay associated legal fees.

Mr. Eichenberg commented that he is not entirely comfortable with subordination in this case, especially when it's about a company that is bankable, and yet the NMSBIC's asset is still there but it will not be considered for repayment even if the business goes under. He said he would vote against this agreement.

Mr. Eichenberg also commented that there is something wrong when a startup company becomes bankable and is paying Rio Vista 11 percent interest.

Mr. Badal responded that this is why the business would probably pay off Rio Vista and replace it with a bank loan; that is the hope. Chairman Fowler agreed that they would be wise to pay the loan off Rio Vista loan, or at least most of it.

[The Agenda was reordered.]

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

Mr. Schafer presented a status report on individual funds in the NMCC Fund I portfolio.

Mr. Schafer left the meeting.

Mr. Cummins stated that NMCC is requesting the second of three extensions that are provided for in the limited partnership agreement. He recommended that the board approve the extension for one year. Extending the fund end-date is preferable to other alternatives such as setting up a liquidating trust or receiving pro-rata shares of stock in the various portfolio companies.

Mr. Badal moved Mr. Cummins' recommendation. Mr. Morgan seconded the motion, which passed unanimously by voice vote.

[Break.]

FINANCIAL REPORTS AS OF MARCH 31, 2016 AND APRIL 30, 2016

Mr. Cummins presented the financial report.

Mr. Eichenberg moved to accept the Financial Reports, as presented. Mr. Garcia seconded the motion, which passed by unanimous voice vote.

DIRECTOR AND OFFICER INSURANCE POLICY RENEWAL

Mr. Cummins stated that the NMSBIC's executive protection insurance policy will expire on June 23, 2016. The annual cost of the policy premium last year was \$3,230, and the NMSBIC's insurance agent at HUB International, Alex Phillips, is not aware of any significant rate changes for this type of policy.

Mr. Cummins recommended renewal for one year, to June 23, 2017.

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

EXECUTIVE DIRECTOR/INVESTMENT ADVISOR REPORT: LOAN REPORTS; LENDING PARTNER FINANCIAL STATEMENTS; EQUITY PARTNER DETAIL; TAKEAWAY REPORT

Mr. Cummins presented highlights from his report:

-- Accion is at 82 percent of their maximum funding level of \$6.5 million. Based on their average growth over the past two years, they might hit their maximum funding in about 19 months, although that could change quickly with funding of one or two large loans.

-- The Loan Fund Is at 85 percent of their \$11 million maximum funding, and might hit their maximum funding in about 19 months, although that could change quickly with funding of one or two large loans.

-- The New Mexico Mortgage Finance Authority had three multifamily construction projects that NMSBIC funds were invested in. There was repayment on one loan totaling \$600,000, bringing the NMSBIC's outstanding balance to \$900,000.

-- WESST Corp has a balance of \$93,000, or 25 percent of their \$375,000 funding level.

-- NM Gap Fund: At the last board meeting, the NMSBIC approved another year of management fees for New Mexico Gap Fund, and there was discussion of a possible change to the partnership agreement to allow the fund to put additional money into one of their successful companies. Chris Traylor met with the president/CEO of the company and later stated that he feels additional funding does not make sense for the company at this time, but wants to keep the discussion going and reconsider at the end of this year if that makes sense later.

-- New Mexico Community Capital: Michael Schafer talked about the exit/sale of one of the NMCC portfolio companies. Details are confidential at this time. NMCC provided a distribution check to NMSBIC in May related to the sale.

-- Verge Fund: Tom Stephenson will talk later today about extensions of Verge I and I.5, and would like to provide information about a new Verge II.5 investment that is open through June 15, 2016.

-- At the last NMSBIC meeting, the board discussed a top-up investment the NMSIC was considering in Verge I, in which the NMSBIC was given the opportunity to invest, but the NMSIC decided not to go forward with that.

-- The joint powers agreement with the NMSIC has been executed by NMSBIC, NMSIC and the Department of Finance & Administration. NMSBIC has approved investing \$3 million in the Core Plus bond pool, which will take place once signature cards are signed after today's meeting.

BUREAU OF BUSINESS & ECONOMIC RESEARCH (BBER), PROPOSED RESEARCH ENGAGEMENT REGARDING NMSBIC'S ECONOMIC IMPACT: JEFFERY MITCHELL, PH.D., DIRECTOR, BBER; JULIAN BACA, DATA MANAGER

Mr. Cummins introduced Mr. Baca to the board. Mr. Baca stated that Dr. Mitchell was unable to attend this meeting.

Mr. Cummins stated that, at the previous meeting, the board approved \$4,000 for BBER to talk to the NMSBIC's partners and develop a scope of work, including what might be involved in moving forward with a project to evaluate the economic impact of the NMSBIC's program.

Mr. Cummins said the board packet includes a preliminary review, which is feedback on what BBER has discovered in the 30 days since beginning this project; and a proposed scope of work.

Mr. Baca presented BBER's preliminary review. He said BBER thinks this is a very viable study, with good data already available, and BBER is particularly interested in the later phases of the scope of service. He said there are a lot of opportunities to track the data collected and to standardize and aggregate the information for recording purposes, which would assist the NMSBIC in demonstrating it is fulfilling its economic development mandate.

Mr. Cummins commented that he found it interesting that two-thirds of the lending customers are corporations or LLCs, and one-third are sole proprietors. For the two-thirds that are corporations or LLCs, BBER has access to very reliable and accurate job data. BBER can look at the number of jobs before, during and after the loan was done, the wages paid, etc. He said BBER would also use surveys to gather additional data.

Mr. Baca said BBER has talked with two of NMSBIC's lending partners, and he believes they can get adequate consent agreements in place. They have done other impact studies for a technology transfer economic development group based at UNM and worked with the South Valley Economic Development Center, the National Labs, universities, and have had various clients who are concerned about confidentiality. BBER has experience in protecting and preserving that information and confidentiality.

Mr. Cummins stated that he and Mr. McDonald have discussed this and believe the way to move forward is for BBER to enter into nondisclosure/confidentiality agreements directly with NMSBIC's loan partners. The reports can be summarized and scrubbed of identifying information of specific company names, so that discussing and reviewing the information in an NMSBIC public meeting will not be an issue.

Mr. Cummins said Mr. Baca and Dr. Mitchell have provided this project in four parts. Part 2 would be a cost benefit analysis by geography, industry and other factors; Part 3 would be an assessment of market opportunities and challenges; and Part 4 would be development of data reporting and dashboards.

Mr. Cummins recommended proceeding with Part 1 at a cost of \$40,000. Decisions on Parts 2, 3 and 4 could be tabled until the board sees the results of Part I.

Mr. Eichenberg moved to approve Part 1. Mr. Badal seconded the motion, which passed unanimously by voice vote.

**VERGE FUND PROPOSED EXTENSIONS AND PROPOSED INVESTMENT:
TOM STEPHENSON, MANAGING DIRECTOR**

Mr. Cummins welcomed Tom Stephenson and Bill Bice of Verge Fund.

Mr. Cummins said Verge is requesting a one-year extension in Verge I, to June 17, 2017; and a one-year extension in Verge I.5 to May 1, 2017. Verge is also requesting that the NMSBIC consider an investment in the new Verge II.5 Fund, which is open to investments through June 15, 2016.

Mr. Cummins noted that the NMSBIC's share in Verge I is 11.8 percent, in Verge I.5, it is 56.57 percent, and in Verge II it is 34.48 percent.

Mr. Stephenson stated that the NMSBIC has the largest stake in Verge I with 65 percent, and 66-2/3 percent is required to approve the amendment. While the NMSBIC did not definitely say yes on the extension, there were positive indications.

Mr. Stephenson said the NMSBIC is the largest investment in Verge I.5, which was formed on May 1, 2006. He said Verge plans to wind down the Verge I and I.5 portfolios at the same time, and is asking for its first extension on Fund I.5. He said the one-year extension being requested for Verge I is the third of three.

Mr. Badal asked what would happen at the end of next year if the final one-year extension were approved for Verge I. Mr. Stephenson responded that they are driving towards exiting companies as quickly as possible, but want to avoid a "fire sale." He said they will not be able to have exits of all companies, and will have to make a decision about continuing to hold the partnership in place beyond that point. This will be the decision of the limited partners in conjunction with the general partner based upon what is left in the portfolio. He said he expected he would be asking to extend the fund a year from now.

Mr. Stephenson presented the board with information on Verge II.5 and showed a video. He presented a status report of the portfolio companies.

Chairman Fowler stated that, if NMSBIC chooses not to invest in Verge II.5, would Verge II.5 dilute the NMSBIC's investment in the other funds; and would an investment by NMSBIC in Verge II.5 keep the NMSBIC from being diluted.

Mr. Stephenson responded that the companies are raising money, so the dilution will occur and would come from Verge II.5 or another source. By investing in Verge II.5, the NMSBIC would mitigate that dilution. He stated that they want to raise \$8 million, and have commitments of \$5.85 million, with a few others that are "close."

Mr. Badal asked Mr. Stephenson how much the NMSBIC would have to invest to keep from being diluted, and Mr. Stephenson said that was a complex question.

Mr. Cummins recommended approval of a one-year extension of Verge I to June 17, 2017 and a one-year extension to Verge 1.5 to May 1, 2017.

Mr. Cummins commented that he sees Verge II.5 as a different level of risk from Verge I or Verge II, which made investments in early-stage startup companies with a higher level of risk. He said Verge II.5 is a follow-on investment in companies with proven management teams, proven products, proven markets, and potential for good returns. However, he noted the NMSBIC's strategy has been to expand its lending program and increase concentration in loans while decreasing concentration in equity capital.

Mr. Badal moved that Verge I and Verge 1.5 be extended for another year. Mr. Garcia seconded the motion, which passed unanimously by voice vote.

Messrs. Stephenson and Bice left the meeting.

Chair Fowler asked the members thoughts on discussion of Verge II.5. It's an add-on investment to protect from dilution of NMSBIC's investment already made; on the other hand, it is expending funds on an equity position.

Mr. Cummins stated that \$2.6 million is available for investment operations. There is also a \$700,000 reserve for operations and loan losses, for a total of \$3.2 million.

Mr. Badal commented that the board decided that its future focus would be on lending, but he recalled the board specifically said they would consider good equity investments if they came along. At no time has the board taken the position that it would not ever make additional equity investments.

Mr. Cummins said the board has also discussed having funds available to continue to grow its lending program, and one question would be whether any proposed equity investment be for a relatively small amount, and would a small investment be worth doing?

Mr. Badal said he didn't think it was worth it.

Chairman Fowler noted that Mr. Stephenson had said he didn't know how much the NMSBIC would need to invest to avoid becoming diluted. He said he assumed \$500,000 would not be enough.

Mr. Badal asked Mr. Cummins how much money the NMSBIC could realize in the next 12 months if expected exits materialize. Mr. Cummins responded that there could be payoffs of \$3-\$5 million, but he was not sure how much might be returned to the NMSIC. In addition, he expected that both The Loan Fund and Accion would be requesting an increase in their lines of credit over the next 12 months.

Board members agreed to defer a decision on this issue until the next meeting, which would be by conference call.

Chairman Fowler excused himself from the proceedings.

Mr. Badal commented that another pending issue when considering an investment in Verge II.5 is Rio Vista Growth Capital's request for \$1 million, which would lower the available funds to \$1.6 million.

The board discussed projected investment returns over the next 12 months.

Mr. Cummins noted that the NMSBIC does not yet have a measure of success in terms of return on investment. He said the NMSIC has looked at this investment in Verge II.5, and he understands from Mr. Stephenson that Sun Mountain doesn't feel they have yet met the hurdle of proving their success.

Mr. Badal said another concern is the NMSBIC's uncertainty in terms of available funds over the next year. He recommended that the NMSBIC not invest at this time for that reason.

The board decided to defer any possible action on this matter until the upcoming (unscheduled) board conference call, when there will be a discussion regarding the proposed investment in Rio Vista Growth Capital.

**PROFESSIONAL SERVICE AGREEMENT RENEWALS: RANDALL MCDONALD;
DEE BRESCIA; JUDITH BEATTY; RDC ADVISORS**

Mr. Cummins discussed proposed renewals of the following professional services agreements:

Executive Director/Investment Advisor, RDC Advisors LLC
Legal Counsel, Randall J. McDonald
Accounting Services, Dee Brescia
Recording Secretary, Judith Beatty

Mr. Eichenberg moved to approve the renewal of the professional services agreements for Mr. McDonald and Ms. Brescia under the same terms and approval of Ms. Beatty's agreement with an hourly rate increase from \$48 per hour to \$50 per hour. Mr. Morgan seconded the motion, which passed by unanimous voice vote.

[Mr. Cummins stepped out of the room during the discussion of his contract.]

Mr. Garcia moved to approve the RDC Advisors contract as presented in the proposal, which would be a three-year contract with a 2 percent annual increase in compensation. Mr. Morgan seconded the motion, which passed unanimously by voice vote.

STATE OF NEW MEXICO AUDIT, NMSBIC AS COMPONENT UNIT

Mr. McDonald stated that the NMSBIC has been asked to provide information to the auditors for the state so that the state audit will include the NMSBIC's financials. He said he thought this was appropriate, and would recommend that the NMSBIC allow the NMSBIC auditors to provide the requested information to the state auditors. Mr. McDonald said the NMSBIC auditors did not indicate there would be an extra charge for their work in doing so.

Mr. McDonald said no action was necessary unless there was an objection.

[Mr. Eichenberg left the meeting.]

NMSBIC PROPOSED BUDGET, JULY 1, 2016 THROUGH JUNE 30, 2017

Mr. Cummins reviewed the proposed budget. Mr. Badal recommended moving \$40,000 of the BBER proposed expense to the 2016-2017 fiscal year.

Mr. Garcia moved to approve the proposed budget, as presented and with Mr. Badal's change. Mr. Morgan seconded the motion, which passed unanimously by voice vote.

FIRST NATIONAL SANTA FE, CERTIFICATE OF DEPOSIT MATURING JUNE 9, 2016

Mr. Cummins stated that a \$1 million CD will mature on June 9. Although he initially recommended moving it into the NMSIC bond pool, he would like to now recommend that it be moved into the money market fund until the board's upcoming telephone meeting.

Mr. Garcia moved to approve not renewing the certificate of deposit and letting it roll into the money market fund. Mr. Morgan seconded the motion, which passed unanimously by voice vote.

INVESTMENT POLICY REVIEW

Mr. Cummins stated that he recommended no changes to the Investment Policy, which is reviewed annually by the board.

Mr. Morgan moved for approval, with no changes this year. Mr. Garcia seconded the motion, which passed unanimously by voice vote.

Because of time constraints, the following items were deferred:

STATE INVESTMENT COUNCIL CORE PLUS BOND POOL, UPDATE INFORMATION


2016 NMSBIC COMMUNITY MEETING PLANNING, OCTOBER 2016 INFORMATION

BOARD CONTINUING EDUCATION (DEFERRED) INFORMATION

CHAIRMAN'S COMMENTS INFORMATION

ADJOURNMENT

Its business completed, the NMSBIC Board adjourned the meeting at 12:45 p.m.



Alan Fowler, Chairman and President

7/25/16

Date