

MINUTES OF THE

NEW MEXICO SMALL BUSINESS INVESTMENT CORP

May 31, 2017

A meeting of the New Mexico Small Business Investment Corp 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

Mr. Joseph H. Badal, Past Board Chair

The Hon. Tim Eichenberg, New Mexico State Treasurer [left at 10:40 a.m.]

Mr. Steven E. Morgan, Secretary/Treasurer

Members Excused:

Mr. Guadalupe Garcia

Financial Adviser to Board

Mr. Russell Cummins

Board Legal Counsel:

Randall McDonald (left at 10:30 a.m.)

Recording Secretary:

Ms. Charmaine Clair, for Judith Beatty

Guests:

Ms. Dee Brescia, Contract Accountant

Mr. Jake Dopson, Pulakos CPA

Mr. Michael Schafer, New Mexico Community Capital

REVIEW AND ACCEPTANCE OF AGENDA

Mr. Badal moved acceptance of the agenda, as published. Mr. Morgan seconded the motion, which passed unanimously by voice vote.

REVIEW AND ACCEPTANCE OF APRIL 3, 2017 BOARD MINUTES

Mr. Badal moved acceptance of the April 3, 2017 minutes, as published. Mr. Morgan seconded the motion, which passed unanimously by voice vote.

PROPOSED CHANGE IN ACCOUNTING METHOD:

JAKE DOPSON, PARTNER, PULAKOS CPAS

Mr. Cummins presented an overview of this proposal.

Mr. Cummins said the Government Accounting Standards Board (GASB) is starting to enforce a rule that has been around for a long time, which would require the NMSBIC to follow government accounting standards. Since its inception, however, the NMSBIC's audited financial statements have been presented on a Financial Accounting Standards Board (FASB) basis. While GASB has allowed FASB standards to be used in the past, in situations where companies felt FASB standards made more sense, GASB will no longer allow FASB standards to be used going forward for those companies required to use GASB standards. Technically the NMSBIC is required to use GASB standards because its board is appointed by a government. However, it appears GASB standards do not make sense for the NMSBIC, because under GASB, equity investments made by nonprofit organizations are carried at cost rather than fair value.

Mr. Cummins said he recently met with Jake Dopson of Pulakos CPAs, Randy McDonald, and Dee Brescia, to discuss various options:

- Convert the financial statements to GASB. Given that equity investments would be carried at cost rather than at market value, this would not make sense for the NMSBIC or to the users of the audit, including the Legislative Finance Committee, Governor's Office, and State Investment Council. This is therefore not recommended.
- Make no changes to how the financials are presented, and accept an adverse opinion on the financial statements. This is not recommended.
- Utilize the Financial Reporting Framework for Small and Medium Sized Entities (FRF for FMEs), commonly referred to as "Baby GAAP." This is for situations in which using GAAP is either too cumbersome or does not make sense. The NMSBIC is eligible to utilize this framework under a provision for nonprofits that don't operate like a traditional nonprofit (i.e., the NMSBIC doesn't solicit or accept charitable donations). For NMSBIC, the structure of the financials would not change, and a clean audit opinion could be issued under the FRF for FME basis. This is recommended.

Mr. Dopson commented that Pulakos sees no negative aspect to utilizing the FRF for FMEs, as recommended by Mr. Cummins, either with the Attorney General's rules governing nonprofits or with CliftonLarsonAllen, the firm that does the work on the state's Comprehensive Annual Financial Report (CAFR).

Ms. Meyers moved to proceed with the recommendation to utilize the Financial Reporting Framework for Small and Medium Sized Entities as the basis for the NMSBIC audit, with an engagement letter to be signed by her. Mr. Badal seconded the motion, which passed unanimously by voice vote.

FINANCIAL REPORTS AS OF MARCH 31, 2017 AND APRIL 30, 2017

Mr. Cummins presented these reports.

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

2017-2018 PROPOSED BUDGET

Mr. Cummins reviewed the NMSBIC's proposed budget for the 2017-18 fiscal year, noting that most income and expense items are in line with the previous year. Highlights include:

- Continued growth in outstanding balances for Accion, The Loan Fund, and WESST. Balances for MFA and Rio Vista are assumed to be flat.
- Of the three proposed additional BBER phases, one phase is assumed at a cost of \$20,000, which is subject to NMSBIC board discussion and approval.
- Increased board travel and meeting expense related to a community meeting in Las Cruces.
- SIC Core Plus Bond Pool. As lending partner loan balances grow, it's assumed the Bond Pool balance will drop from \$8.2 million to \$6.8 million over the next year. For the first 10 months in this fiscal year, the Bond Pool has paid interest of 3.60%, with management fees and market value losses of 1.18%, for a net yield of 2.43%. For next year we are budgeting a yield of 2.0%.

Mr. Badal asked about the interest rate being charged to The Loan Fund, which had been lowered from 2.5 percent to 2 percent, and is scheduled to be adjusted back to 2.5% at some point. Mr. Cummins said The Loan Fund's rate is scheduled to increase in the next fiscal year, but for budget purposes, recommends leaving the rate at 2.0%.

[Action deferred to later in agenda.]

NEW MEXICO COMMUNITY CAPITAL – PROPOSED EXTENSION **MICHAEL SCHAFFER, MANAGING DIRECTOR**

Mr. Schaffer presented an update of the NMCC portfolio and discussed NMCC's request for the third extension in the limited partnership agreement with NMSBIC. In discussing a potential

liquidity event, he said it may not be possible to maximize the value of the portfolio and complete the close within the one-year time period left.

Mr. Cummins said the last extension provided for under the limited partnership agreement would extend the life of the partnership to the middle of 2018. In discussing this with Mr. Schafer, he said Mr. Schafer might recommend an additional extension one year from now, to the middle of 2019, if he, Mr. Schafer, feels it will be in the best interest of the limited partners.

Responding to Mr. Badal, Mr. Schafer explained that he has been late in bringing these extension requests forward because the NMCC Board typically waits until the limited partner advisory committee has given its approval before taking action. In this case, action he had requested from the NMCC Board at its December 2016 meeting was postponed until March 2017. Mr. Badal suggested that, if another extension is needed in 2018, the NMSBIC Board be prepared to consider approval earlier in 2018, subject to approval by the other parties.

Mr. Badal moved to approve a one-year extension. Mr. Morgan seconded the motion, which passed unanimously by voice vote.

[Break.]

EXECUTIVE DIRECTOR/INVESTMENT ADVISOR REPORT

Mr. Cummins presented highlights from this report.

Accion loans tiered by loan size

Mr. Cummins stated that, at a recent meeting, board members asked Mr. Cummins to provide information regarding Accion's loans, tiered by loan size. Mr. Cummins provided information to the board, noting that:

- Accion's interest rates are typically higher on Accion's smaller loans, and lower on larger loans.
- The higher interest rates on the smaller loans appears to be justified, given historical charge-off rates on the smaller loans.
- The rates charged by Accion on smaller loans appears to be less than, and in some cases significantly less than, rates charged for business credit cards or internet lenders.
- Accion does a good job of delivering loans to many communities throughout the state of New Mexico, and without the smaller loans, Accion's geographic distribution would likely be reduced.

Mr. Cummins said he spoke with Accion CFO Greg Henderson, who pointed out that Accion's smaller average loan size generates less gross dollars in interest income. Often there are not alternatives for these small businesses, and sometimes they cannot qualify for a

business credit card. Business credit cards typically have penalty rates that kick in after late payments and are in the 20-30 percent range, whereas Accion does not have penalty rates. For some Accion borrowers, the only alternative might be "Online" loans with annualized rates that can be as high as 300-400 percent.

Mr. Cummins also stated that, according to Mr. Henderson, while there are several online lenders, one national study showed that only 25 percent of Accion's clients would qualify for one prominent online business lender's products. Finally, lowering pricing would make Accion more dependent on subsidizing its lending program with grants and contributions. This would limit capital and the number of clients that could be served.

PROFESSIONAL SERVICE AGREEMENTS, PROPOSED RENEWALS

- **Legal Services**

Mr. Cummins said there is no proposed change in Randy McDonald's rate or terms.

- **Accounting Services**

Mr. Cummins stated that Dee Brescia is proposing a 2.963% increase in her rate, and no other changes.

- **Transcription Services**

Mr. Cummins said Judith Beatty is proposing no change to her fee or terms.

Mr. Cummins recommended approval of these three proposed contract renewals.

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

BUREAU OF BUSINESS & ECONOMIC RESEARCH (BBER), POSSIBLE APPROVAL OF ADDITIONAL PHASES

Mr. Cummins stated that, at the last board meeting, discussion was tabled regarding engaging BBER to perform additional research projects, as follows:

Part 1: Economic Impact Analysis, cost \$40,000 (COMPLETED)

Part 2: Cost-Benefit Analysis by Geography, Industry, and Other Factors, cost \$20,000

Part 3: An Assessment of Market Opportunities and Challenges, cost \$20,000

Part 4: Development of Data Reporting and Dashboards, cost \$20,000

Mr. Cummins said he has had further discussions with Julian Baca and Jeff Mitchell about Part 4. A big part of Phase 1 was the fact that NMSBIC was able to use the Department of Workforce Solutions database to independently verify the job numbers rather than relying on the self-reported information from WESST, Accion, and The Loan Fund. BBER has suggested that, if the NMSBIC is interested in keeping this data updated quarterly or annually, it could enter into a subscription arrangement with BBER in which BBER would charge a one-time fee to set it up and an annual fee for the periodic updates.

Ms. Meyers suggested looking into having the lending partners report CRS numbers to BBER at the time of loan origination, since that information could then be added to the database.

Mr. Badal expressed concern that the new job numbers reported by BBER in the first phase report seemed low, and did not capture the full impact of the NMSBIC's lending program. He said he would rather NMSBIC promote the message that it is supporting X number of jobs with its capital directly as well as indirectly. He suggested we see if, through CRS number reporting, BBER could collect data from the lending partners on new and existing jobs.

Board members agreed with a recommendation by Mr. Badal that Mr. Cummins would ask all of the lending partners if they would be willing to provide information needed for additional phases, and that the board postpone action on any additional phases until that is determined. The \$20,000 included in the FY 2018 budget to cover the estimated cost of one of the next three phases is acceptable for budget purposes, but is subject to final approval pending the outcome of Mr. Cummins' discussion with the lending partners.

Mr. Badal moved to accept the submitted budget for FY 2018. Ms. Meyers seconded the motion, which passed unanimously by voice vote.

VERGE FUND, PROPOSED LIMITED PARTNER APPROVALS: VERGE 1 EXTENSION; VERGE 1.5 EXTENSION; VERGE II INVESTMENT CONCENTRATION

- **Verge I Extension**

Mr. Cummins stated the general partner is proposing this fund be extended for an additional year, to June 17, 2018. NMSBIC owns 11.8 percent of this fund, and Verge is proposing a total annual management fee of \$30,000, of which the NMSBIC's share would be \$3,540. He recommended approval of this extension.

- **Verge 1.5 Extension**

Mr. Cummins stated the general partner is recommending the limited partners approve the second of three one-year extensions, extending the fund to May 1, 2018, with a total annual management fee of \$25,000 (of which the NMSBIC's 56.57 percent share is \$14,143). Mr.

Cummins recommended approval of this extension, as continued management should add value to the active companies in this fund.

- **Verge II Investment Concentration**

Mr. Cummins stated that the general partner is recommending a business combination of Nuvita and Nuvita Professional. This requires limited partner approval because the combined companies will result in a concentration greater than 20 percent of Verge II. The 20 percent limit was reached in part because distributions, including the IntelliCyt distribution, reduced the overall fund size. The value of the NMSBIC's share of the combined companies will be well below its legislative limit of 10 percent of the NMSBIC's assets.

Ms. Meyers moved to approve all three proposals, as presented. Mr. Badal seconded the motion, which passed unanimously by voice vote.

INVESTMENT POLICY ANNUAL REVIEW AND APPROVAL

Mr. Cummins stated that the NMSBIC Board approves the Investment Policy at this time each year. He said minor changes were made to the policy to bring it up to date. In addition, at the bottom of page 80, the following has been amended:

"4) No investment in the securities of any one issuer shall constitute more than 5% of the aggregate market total of all Currently Available Funds or \$500,000, whichever is greater, provided that there is no investment limit in the securities of any one issuer of U.S. Treasury Securities or notes or debentures issued by U.S. Government sponsored agencies, the NMSIC US Core Plus Bonds Investment Pool..."

Ms. Meyers moved for approval, as amended. Mr. Morgan seconded the motion, which passed unanimously by voice vote.

PROFESSIONAL LIABILITY INSURANCE POLICY, PROPOSED RENEWAL

Mr. Cummins stated that this policy renews on June 23 of each year, and the premium is not expected to change significantly. He recommended approval.

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

BOARD CONTINUING EDUCATION – DOCUMENT RETENTION POLICY

Mr. Eichenberg noted that the state is now offering an all-day class on document retention, and each department is required to send someone to this class.

Mr. Cummins reviewed the list of documents to be retained, and retention periods, according to NMSBIC policy.

Responding to Ms. Meyers, Mr. Cummins said he would check with legal counsel Randy McDonald regarding the statutory requirements.

Mr. Badal suggested changing the retention periods in policy to reflect statutory requirements.

NMSBIC ANNUAL COMMUNITY MEETING PLANNING

Mr. Cummins said Treasurer Eichenberg suggested coordinating the NMSBIC's Community Meeting with an economic development conference scheduled at New Mexico Tech in Socorro in April 2018. Although the NMSBIC's annual community meeting would typically be held that October, changing the meeting date would increase exposure to economic development people from the entire state. Mr. Cummins will gather more information and report back to the board.

Mr. Cummins said if the Community meeting is moved to April 2018, he will look at the need to schedule a regular board meeting in October 2017.

CONTINUITY PLANNING

Board members agreed that would be crucial to have a continuity plan in place in anticipation of the 2018 gubernatorial election for the benefit of any new appointees. Further discussion on this is scheduled for the January 2018 board meeting.

CHAIRMAN'S COMMENTS

None.

ADJOURNMENT

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



Alan Fowler, Chairman

7/21/17

Date