

**MINUTES OF THE**  
**NEW MEXICO SMALL BUSINESS INVESTMENT CORP.**

**June 22, 2018**

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  
Mr. Joseph H. Badal, Vice Chair  
Mr. Guadalupe Garcia  
Mr. Steven E. Morgan  
Roxanna Meyers, Secretary/Treasurer (arrived later)

**Members Excused**

The Hon. Tim Eichenberg, New Mexico State Treasurer

**Financial Adviser to Board**

Mr. Russell Cummins

**Board Legal Counsel:**

Mr. Randy McDonald (by telephone)

**Recording Secretary**

Ms. Charmaine Clair, for Judith Beatty

**Guests Present:**

Mr. Tom Stephenson, Verge Fund  
Mr. Paul Bina

**REVIEW AND ACCEPTANCE OF AGENDA**

Mr. Badal moved acceptance of the agenda, as presented. Mr. Morgan seconded the motion, which passed unanimously.

**REVIEW AND ACCEPTANCE of April 13, 2018 BOARD MINUTES**

Mr. Badal moved acceptance of the April 13, 2018 minutes, as presented, Mr. Garcia seconded the motion, which passed unanimously.

**PROPOSED EXTENSIONS FOR VERGE I AND VERGE 1.5**

Tom Stephenson presented information on the request for extensions on Verge I (2004) and Verge 1.5 (2006). The funds are invested in the same companies, as Verge 1.5 is a follow-on fund to Verge 1.

-- The NMSBIC has 11.8 percent ownership in Verge I, and the limited partnership already has approval from 67 percent of the limited partners. Although the NMSBIC's vote is not required, Mr. Stephenson would like to have the board's approval of a one-year extension to June 17, 2019. The management fee will be \$30,000 (of which the NMSBIC's 11.8 percent share is \$3,540). Although Mr. Stephenson would have preferred an extension longer than one year, the State Investment Council, which holds the largest ownership position in the fund, will not consider a longer extension.

-- The NMSBIC has 56.57 percent ownership in Verge 1.5. The limited partnership requires the NMSBIC's vote to obtain the required 67 percent approval. Mr. Stephenson had originally proposed an extension for one year. The expectation is it will take about 3.5 years to close out the Verge 1.5 limited partnership. The Pueblo of Sandia, which also has a large ownership position in Verge 1.5, has indicated they would prefer an extension of 18 to 24 months. Mr. Stephenson would like the board to consider a two-year extension, with management fees of \$20,000 the first year, \$15,000 the second year, and a provision that part of the management fee be refunded related to write-offs of certain investments, or failure to exit certain other investments.

Mr. Badal expressed concern that the board not put undue pressure on the Verge funds a year from now, when a new NMSBIC board will be in place and its members will be facing a steep learning curve.

Mr. Stephenson presented an update on the five companies in the portfolio.

[Ms. Meyers joined.]

**Mr. Badal moved to approve a one-year extension for Verge I, and a two-year extension for Verge 1.5, as requested by Tom Stephenson, subject to approval of the legal document extension agreements. Mr. Morgan seconded the motion, which passed unanimously.**

Mr. Badal suggested that Mr. Stephenson be invited to appear before the board next year, as it would be interesting to know if Verge is doing other funds, what they have learned, and if they would do anything differently going forward.

Mr. Cummins noted that Verge I started out as an early stage fund, and assumed they'd get outside follow-on funding to take them to the next level. When that failed to materialize, they created Verge 1.5. The strategy was changed so to create a capital efficient operation that did not require a large amount of funding, and where Verge could take the funds from beginning to exit with their funds. He said Bill Bice would like to see a future Verge fund be a follow-on fund investing in later-stage companies, with other investors stepping in to do the seed-stage and early-stage investments.

#### **FINANCIAL REPORTS AS OF MARCH 31, APRIL 30, AND MAY 31, 2018**

Mr. Cummins reviewed the financial reports.



Mr. Cummins noted that the increase in the cash (money market) balance to \$1.2 million was primarily due to the payoff in full (principal, interest, and deferred interest) from Rio Vista Growth Capital (RVGC). Lynn Carrozza recently indicated that he had no mezzanine deals in the pipeline at this point and might consider terminating the agreement with NMSBIC.

Mr. McDonald said the agreement has a seven-year term, and the note comes due at the end of July 2021.

Mr. Cummins said funds available for investments and operations was \$5.79 million, which takes into account the \$700,000 cash reserve approved by the board. If the agreement with RVGC is terminated, the amount would increase by \$750,000.

**Mr. Garcia moved acceptance of the Financial Reports as of March 31, April 30, and May 31, 2018. Mr. Badal seconded the motion, which passed unanimously.**

#### **NEW MEXICO COMMUNITY DEVELOPMENT LOAN FUND, PROPOSED CHANGES TO LOAN AGREEMENT**

Mr. Cummins stated that he, Mr. Badal, Mr. Fowler and Mr. McDonald have been discussing possible recommendations to the board on the covenant with The Loan Fund, which currently impacts three loans that require written consent for being over the NMSBIC loan limit using money from other funding sources. This issue was discussed at the last NMSBIC board meeting, and the board decided to take no action and continue to monitor the three loans.

Mr. Cummins said a question that has come up in the discussions is whether doing larger loans fits with the NMSBIC's mission. In addition, he didn't believe the NMSBIC should be in the business of approving loans to individual small businesses, given it would not be appropriate to review confidential information from a small business in an NMSBIC meeting that is open to the public. He believes those lending decisions should be up to the lending partners.

Mr. Cummins said perhaps the language in the loan agreement should be changed from written consent to written notice on any loan over the NMSBIC's loan limit. This would allow the NMSBIC to track large loans without having to identify and/or discuss confidential information about the small business in a public meeting.

Mr. Cummins said that in response to a suggestion by Mr. Badal that the NMSBIC look at loans as a percentage of the lender's capital, he had prepared a list of unrestricted assets and total net assets, with ratios, for The Loan Fund, Accion, WESST, RVGC and MFA for review.

Board members discussed The Loan Fund's three loans that have exceeded the NMSBIC's loan limit with money from other funding sources.

Mr. Cummins said Mr. Pacheco would like to structure his loan portfolio, to have about one-third of the loans in the \$500,000-\$1 million range, which would be primarily real estate secured with a 5 to 10 year balloon.

Mr. Badal commented that The Loan Fund's payoffs might accelerate as the economy gets better and banks have more flexibility. Ms. Meyers said The Loan Fund has a word-of-mouth following, though, that should provide on-going demand.

Mr. Badal said the long-term goal is to get The Loan Fund self-sustaining, and they are not there yet, and the NMSBIC should do what it can to help them grow. He said he would not want the NMSBIC to fund \$1 million loans, however, with either The Loan Fund or Accion.

Mr. Badal recommended that an LTV be established on multipurpose real estate at a maximum of 75-80 percent and a separate LTV on single-purpose real estate at 60 percent.

**Mr. Badal moved to change the loan agreement with The Loan Fund, making sure that it applies to small businesses and their affiliates, changing written consent to written notice; and if a loan goes over \$500,000 for the NMSBIC funds being used with other sources of funds, and over \$750,000 for the second part of the agreement, then the NMSBIC's portion of the funds with the money used will be limited to an LTV of 75 percent for multiuse and 60 percent for single use, first lien. In addition, the board will provide written consent for Loan #1 based upon the overall LTV, provided it is 50 percent or less.**

Mr. Cummins clarified that, for Loan #3, the NMSBIC's funds were used for a \$692,000 loan on a \$915,000 property, which is 76 percent LTV.

**The motion was amended to change the LTV for multiuse to 76 percent.**

**Mr. Garcia seconded the motion, which passed unanimously.**

[Break.]

Discussion continued on the motion.

Mr. Cummins noted that what was approved in December was raising the limit on loans from \$500,000 to \$750,000, which is 85 percent LTV, but with no other money. With the change made today, if The Loan Fund exceeds \$750,000 with other money, then it drops the LTV on the NMSBIC's portion to 76 percent.

Mr. Badal said that was not the intent of his motion. He added, though, that it was his understanding that the NMSBIC didn't care if The Loan Fund used money from other sources to fund junior liens, as long as funding provided by the NMSBIC was in first position.

Mr. Cummins said what the board approved in December states that The Loan Fund can go up to \$750,000 if the loan is first mortgage in favor of the borrower on owner-occupied real estate; that the LTV would not exceed 85 percent; cash flow coverage is at least 110 percent; and the borrower or personal guarantor has a FICO score of at least 600.

**Mr. Badal moved to vacate the previous motion. Mr. Garcia seconded the motion, which passed unanimously.**

Mr. Badal said he thought the 85 percent LTV was too high.



**Mr. Badal moved the following:**

- 1. Maximum combined loan amount of \$1 million, regardless of funding source.**
- 2. Maximum loan to value for loans made with NMSBIC funds, is 76 percent for multiuse property, and 60 percent for single-use property, on any loan between \$500,000 and \$750,000.**
- 3. Maximum loan to value for loans secured by Furniture, Fixtures, and Equipment and all other secured assets is 50 percent.**
- 4. Any loan over the NMSBIC's loan limit with money from other funding sources requires written notice.**
- 5. \$1 million added to The Loan Fund's Maximum Principal Amount effective 12/31/18.**
- 6. Provide written consent for all three loans out of compliance with the existing loan documents for which details have been provided to the NMSBIC.**

Board members agreed that if after consultation with The Loan Fund the 50 percent LTV on FF&E did not work, Mr. Cummins would bring the matter back to the next meeting.

**Ms. Meyers seconded the motion, which passed unanimously.**

#### **NMSBIC PROPOSED BUDGET FOR FISCAL YEAR ENDING JUNE 30, 2019**

Mr. Cummins presented a budget overview.

-- Net income for operations is forecast this year at \$482,000, with \$380,000 budgeted for next year. The reasons for the drop are primarily because 1) interest income for RVGC, previously at 5.5 percent, is down to 0, and 2) the Core Plus Bond Pool tends to earn around 3 percent in interest income but it has been budgeted conservatively at 2 percent.

**Ms. Meyers moved to approve the proposed budget for the fiscal year ending June 30, 2019, as presented. Mr. Badal seconded the motion, which passed unanimously.**

#### **INVESTMENT POLICY ANNUAL REVIEW**

Mr. Cummins stated that, within the past fiscal year, First National Bank of Santa Fe merged with Sunflower Bank, and changed its name to First National 1870. The NMSBIC changed its policy a few years ago to be consistent with the State Treasurer's policy for public funds. The NMSBIC current investment policy says that, for bank deposits, it will follow the State Treasurer's Office calculation for collateral requirements. He said he recently visited the State Treasurer's Office website, which lists the ranking for all financial institutions, but that First National 1870/Sunflower Bank was not rated there. He stated that, since the legislation calls for "certified and designated" by the State Treasurer's Office, he was going to recommend that the NMSBIC require 100 percent collateral on its deposits not insured by FDIC. Mr. Cummins said he then contacted Deputy State Treasurer, Sam Collins, who clarified that First National 1870/Sunflower Bank is still certified and designated by the State Treasurer's Office, but

because there are currently no public funds on deposit with First National 1870/Sunflower Bank, they are not on the report posted on the State Treasurer's website.

Mr. Cummins withdrew his recommended changes. He recommended approval of the Investment Policy, with no changes.

**Mr. Morgan so moved. Ms. Meyers seconded the motion, which passed unanimously.**

#### **PROFESSIONAL SERVICES AGREEMENT RENEWALS**

- Randall McDonald
- Dee Brescia
- Judith Beatty
- RDC Advisors LLC

Mr. Cummins asked to handle these professional services agreements in two parts so that he could address his separately.

Mr. Cummins stated that Mr. McDonald, Ms. Brescia and Ms. Beatty all proposed renewal with no change in pricing or terms.

**Ms. Meyers moved to approve the Professional Service Agreement renewals with no change in pricing or terms for Randy McDonald, Dee Brescia and Judith Beatty. Mr. Badal seconded, and the motion passed unanimously.**

Mr. Cummins explained changes in his agreement: the three-year extension terminates the existing agreement that would have gone one more year. The new three-year agreement would be at an approximate 2 percent increase in annual compensation, and as an officer he is included in the D&O Policy for benefits.

Mr. Cummins stepped out of the room.

**Ms. Meyers moved to approve the RDC Advisors LLC contract, with termination of the existing three-year contract, and changes related to compensation and insurance. Mr. Morgan seconded, and the motion passed unanimously.**

[Ms. Meyers left the meeting.]

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

Mr. Cummins reviewed highlights from his report.

--- Loan officers Norma Valdez and Kathy Sorenson of The Loan Fund have retired and will continue working part-time. The remaining loan officers are Joe Justice and Ben Boushelle.

-- New Mexico Community Capital sold Armed Response Team.



-- NMSBIC has not yet received the 2016 and 2017 audited financials from New Mexico Mezzanine Fund. They have indicated they are waiting for liquidity events, which they had expected by now, to cover the audit costs for both years. They still plan to provide audits for both years.

-- When the NMSBIC received a \$1.6 million distribution from the Severance Tax Permanent Fund (STPF) in 2017, it set the high-water mark for the STPF at \$4.9 billion. Based on the NMSIC's monthly investment holdings report, the STPF was up to \$5.1 billion in April. As of now, if the balance remains at that level, the NMSBIC could receive a distribution of \$1.9 million for the June 30, 2018 fiscal year.

**REVIEW OF LENDING PARTNER LOAN/PARTICIPATION AGREEMENT COVENANTS**

[Previously discussed.]

**NON-PROFIT MANAGEMENT LIABILITY INSURANCE RENEWAL**

Mr. Cummins reported that Mr. McDonald reviewed the policy, and it has been renewed for another year.

**BOARD CONTINUING EDUCATION**

Mr. Cummins said the New Mexico Economic Development Department has created a credit enhancement program. The New Mexico Finance Authority received funds for this program in 2011, which provides collateral support in the form of a CD, but they didn't use the money. He said the NM Economic Development Department have had the money reallocated to them and have started up the program. He stated that he has alerted WESST, Accion and The Loan Fund about this program, and possible availability to Community Development Financial Institutions.

**CHAIRMAN'S COMMENTS**

There were none.

**ADJOURNMENT**

Its business completed, the NMSBIC Board adjourned the meeting at 11:40 a.m.

  
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Alan Fowler, Chairman

8/24/18  
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Date