

**MINUTES OF THE**

**NEW MEXICO SMALL BUSINESS INVESTMENT CORP.**

**August 23, 2019**

A meeting of the New Mexico Small Business Investment Corporation was called to order on this date at 9:10 a.m. at WESST Enterprise Center, 609 Broadway Blvd., N.E., Albuquerque, New Mexico. A quorum was established after roll call.

**Members Present**

Mr. Joseph H. Badal, Chair  
Mr. Guadalupe Garcia  
Mr. Steven E. Morgan [by telephone]  
Ms. Roxanna Meyers, Vice Chair [by telephone]

**Members Excused**

The Hon. Tim Eichenberg, New Mexico State Treasurer  
Mr. Alan Fowler, Secretary/Treasurer

**Financial Adviser to Board**

Mr. Russell Cummins

**Board Legal Counsel:**

Mr. Randy McDonald

**Recording Secretary**

Ms. Charmaine Clair, for Judith Beatty

**Guests Present:**

Mr. Todd Clarke  
Ms. Holly Bradshaw Eakes

**REVIEW AND ACCEPTANCE OF AGENDA**

Mr. Cummins stated that Advantage Capital's presentation has been canceled.

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

## **REVIEW AND ACCEPTANCE OF JUNE 21, 2019 BOARD MINUTES**

Mr. Garcia moved acceptance of the June 21, 2019 minutes as presented. The motion was seconded by Mr. Morgan and passed unanimously.

### **VENTANA FUND, PROPOSED REVOLVING LINE OF CREDIT: TODD CLARKE, EXECUTIVE DIRECTOR**

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Mr. Clarke explained Ventana's mission, which is to provide capital to multifamily housing projects of 5 to 49 units in New Mexico needing renovation or improved energy standards.

Mr. Cummins stated that, at the last meeting, the board approved a \$2 million line of credit with: 1) a call provision with the proposed 10-year term and 2) properties pledged as security could only be eligible as collateral for five years. Following discussion with Mr. Clarke and Ventana Fund board member Paul Cassidy, the call provision was removed and the term was shortened from 10 years to five years. In addition, language was added stating that portfolio company notes would be eligible as security for the NMSBIC loan for a maximum of five years. Also, language stating the Ventana Fund would make reasonable effort to ensure a majority of loans would be made to borrowers where there is an affordable housing shortage along with job growth was changed to state that the loan purpose is to support job growth by providing funding for multifamily housing that will assist communities with workforce development.

Mr. Clarke said he believes Ventana would use the entire \$2 million in the next six months and return to the SBIC with a request for additional funding. He said a large concentration is currently inside the urban area of Albuquerque, but they are pursuing opportunities outside of Albuquerque as per NMSBIC requirements.

Chairman Badal said he didn't see originating loans outside of Albuquerque as a requirement, necessarily, but something that the NMSBIC is encouraging, and suggested softening the language to reflect that.

Mr. Cummins clarified that Ventana's preference is for five-year loans, but the SBIC could extend the term to 7-10 years with the ability to reduce the maximum loan amount. Rather than terminate, they could have a call of the unused amount over the previous 12 months.

Chairman Badal suggested the following motion: To approve the line of credit arrangement with Ventana Fund with the stipulation of a 10-year commitment, and individual loans based on projects would be due five years after funding; and either party could terminate upon written notice with the existing loans allowed to run off in normal course.

Mr. Cummins clarified that the agreement would not terminate but would remain active with the ability for the NMSBIC to reduce the maximum loan amount by the amount of funding

not used within the previous 12 months. Ventana could still draw with a lower maximum loan amount.

Chairman Badal agreed. He said the motion should include that the NMSBIC encourages but does not require projects outside of the Albuquerque Metro area.

Mr. McDonald said the motion should include "subject to preparation and approval of the final documents by legal counsel and the Chairman of the Board."

Chairman Badal said changes have been made from the original content that was approved and this motion would approve the agreement with those changes.

**Mr. Garcia moved to approve the agreement with Ventana Fund, as amended. Mr. Morgan seconded the motion, which passed unanimously.**

#### **FINANCIAL REPORTS AS OF JUNE 30, 2019 AND JULY 31, 2019**

Mr. Cummins reviewed highlights of the financial reports for June and July.

-- The conversion to the GASB accounting method is moving forward and a second draft of the audited financial statements from Pulakos is being reviewed.

-- Total interest income is ahead of budget by \$3800.

-- Funds available for investments operations are \$9.5 million, including the \$700,000 cash reserve. With the \$6 million commitment for The Loan Fund and the \$2 million for Ventana Fund, \$1.5 million remains in available funds.

**Mr. Morgan moved to accept the financial reports, as presented. Mr. Garcia seconded the motion, which passed unanimously.**

#### **FINANCE NEW MEXICO UPDATE: HOLLY BRADSHAW EAKES, HOLLY COMPANY STRATEGIES**

Ms. Bradshaw Eakes presented an update.

Ms. Bradshaw Eakes reported that six to ten newspapers were publishing the Finance New Mexico (FNM) articles in 2018, but the number went down to one to three publications in January 2019. She attributed some of this to Gannett using more material from the national arena, but also she feels this is also because some editors familiar with FNM have gone to work for the state under the new Administration.

Ms. Bradshaw Eakes and board members discussed new strategies and themes that Holly Company could pursue.

Ms. Bradshaw Eakes said she is expanding the use of social media. In monitoring the effects of that, she has noted that website traffic is much higher this year than it was at any time last year.

#### **FINANCE NEW MEXICO CONTRACT RENEWAL**

**Mr. Morgan moved to approve the Finance New Mexico contract as presented. The motion was seconded by Mr. Garcia and passed unanimously.**

Chairman Badal asked Ms. Bradshaw Eakes to meet with Mr. Cummins to discuss an expanded role for the Holly Company; and if it involves revisiting the FNM contract, that can be addressed at the next quarterly meeting. He stressed that the NMSBIC needs to get the word out to the decision-makers in particular, since they have trusted the NMSBIC with almost \$100 million, and success stories are an effective way of doing that. He said he would like to see a plan brought forward at the October meeting.

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

##### Accion, now called DreamSpring

-- Mr. McDonald has reviewed the name change documentation submitted to the NMSBIC. No action on the part of the NMSBIC is necessary because the only change was to the name of the corporation.

-- Proposed \$2 million funding increase is still on hold. Information on second quarter charge-offs has not yet been received.

##### The Loan Fund

-- Documentation for the approved increase from \$14 million to \$20 million is in process.

##### Equity Partner Detail

-- New Mexico Community Capital (NMCC): Mr. Cummins attended a limited partner advisory committee meeting where they discussed winding down the partnership. The current fund end date is 12/31/19 and Michael Schafer is working to achieve exits but is not sure the largest remaining company will exit by year-end. NMCC has scheduled a limited partner advisory committee meeting in September to discuss plans for winding down the partnership.

-- New Mexico Mezzanine Partners (NMMP): Mike Doolittle continues to work to achieve exits. The partnership has scheduled an end date of October 31, 2019, and there are still two active companies. The NMSBIC has written down the value of the two remaining

companies to \$688,800. When the NMMP extension to October 2019 was approved, one of the other limited partners did not want any further extensions beyond October 2019. The NMSBIC previously discussed trying to preserve jobs at some of these companies even if it meant restructuring and reducing the loan balance and extending the partnership, but that would need approval from other limited partners.

Chairman Badal suggested Mr. Cummins discuss the implications of not extending with other limited partners.

#### SIC Core Plus Bond Pool and LGIP

-- SIC Core Plus Bond Pool: The short term investments show a very good year with interest of 3.9 percent that includes a market gain of over 5 percent, with an 8.83 percent return. The SIC has previously indicated they expect a 3 percent return long term; however, returns could be higher or lower, and there could even be negative returns in the future because of fluctuations in the market value of bonds.

-- LGIP: July yield was 2.3 percent.

#### Royalty Fund

Following up on Michael Schafer's request for an equity investment by the NMSBIC at the last meeting, Mr. Cummins said he and Chairman Badal met with Mr. Schafer, and Chairman Badal proposed structuring it as a loan with the NMSBIC having priority on the cash flow of payments coming into the royalty fund. Mr. Schafer was agreeable to the restructuring as a loan, but not with giving priority to the NMSBIC on cash flow payments. Since that structure would amount to a loan with the same risk as an equity investment. Mr. Cummins responded to Mr. Schafer that those terms didn't make sense for the NMSBIC, and there has been no further discussion.

Chairman Badal stated that Mr. Schafer's counterproposal did not make sense to the taxpayer, which is why we were not able to continue.

#### Advantage Capital

Mr. Cummins stated that Advantage Capital (Advantage) was not ready to make a presentation at today's meeting, but indicated interest in providing information in the future. To date, he has had two meetings with them.

Mr. Cummins said Advantage is a private company managing over \$3 billion in assets, and are interested in expanding into New Mexico. They do business in 40 states. The states issue tax credits to Advantage, which sells the credits to investors to subsidize their lending program, focusing on small business loans in rural areas. He said Advantage is not required to pay the

money back, but are only required to show the number of loans made, jobs created, and amount of economic impact.

Mr. Cummins said that in conversations with Advantage, he discussed setting them up as a lending partner with the NMSBIC providing Advantage with a line of credit and a preferential interest rate, as it does with The Loan Fund and other lending partners. Advantage would make loans and assume all risk of loss. Advantage said they were interesting in making a deal work, with the NMSBIC providing a line of credit with an interest rate of 2 percent, and they would take the risk of loss.

Mr. Cummins said that Advantage targets loans with an average balance of \$2 million. He told Advantage that the NMSBIC board might consider an initial line of credit up to \$5 million, and then once the concept was proven, the board might consider increasing the amount over time. Advantage responded that having a \$5 million line of credit would only allow them to do about two loans, which would not provide enough diversification of risk for them. They feel a minimum size might need to be \$20 million, which would allow them to do about ten loans, and would provide sufficient diversification to assume risk of loss.

#### Rural Community Assistance Corporation (RCAC)

Mr. Cummins said this is a CDFI nonprofit headquartered in Sacramento and operating in states throughout the West. They have a strong financial position and are well-capitalized. Highlights include:

- Very low charge-offs with \$17 million in New Mexico loans.
- Their mission is working only with rural communities of 50,000 population or less. Their New Mexico focus has been primarily on community centers and water/ wastewater projects. They are experts in working with the USDA.
- USDA guarantees permanent financing but does not provide funding for predevelopment or construction. RCAC assists the community in getting the USDA guarantee that allows them to obtain long-term financing. RCAC then makes a pre-development or construction loan, with the USDA guaranteed loan as their take-out.
- RCAC tracks data on the number of business hookups/jobs supported by their program.

Mr. Cummins said the RCAC is interested in a relationship with the NMSBIC starting in the \$1-\$2 million range, but they believe they could deploy much more than that based on their current activity.

Chairman Badal said he sits on the Board of Finance, which provides emergency grants and loans for community water and wastewater projects. He noted that there is a very serious water and wastewater problem in New Mexico in smaller rural communities, with breaking pipes, etc.

Mr. Cummins said he would contact Board of Finance director Ashley Leach to follow up. He said it's his understanding that DFA has grant funding available for these projects, but can only provide funding with a matching grant or loan.

Mr. Cummins said he was not sure whether the NMSBIC can make water and wastewater loans to communities, because a community might not meet the NMSBIC's statutory definition of a New Mexico business. He will follow up with Mr. McDonald on this.

Mr. Cummins said the RCAC is interested in starting to make small business loans in New Mexico, and received a Kellogg Foundation grant to provide training to entrepreneurs and small business owners in rural New Mexico. They are currently delivering an "entrepreneur boot camp" in northern New Mexico. Their minimum loan size for small businesses is \$100,000; however, so far, the small businesses attending the boot camp would not qualify for a loan of that size. RCAC has been referring those to DreamSpring, and he has also provided contact information to RCAC for The Loan Fund.

#### Lift Fund

Mr. Cummins reported that he attended a Fundit Conference in Taos on July 17, sponsored by the New Mexico Economic Development Department and the Rural Development Corporation. There were about 100 attendees, and the list of financial institutions and organizations with tables was listed in his report on page 35.

Mr. Cummins said one of the attendees was a representative from the Lift Fund, which is headquartered in San Antonio, Texas. Lift Fund used to be Accion Texas, but several years ago, they left the Accion network and changed their name. Lift Fund is a CDFI, which is focused on small business loans. They are planning to expand into El Paso and southern New Mexico.

Mr. Cummins said Lift Fund has \$12 million in cash and \$48 million in loans. Total assets are \$78 million. Their 2018 charge-offs were about 5 percent, and average loan balance is about \$28,000, with a high percentage in minorities and women-owned businesses. They have plans to expand and provide small business loans in Las Cruces and the colonias in southern New Mexico. He asked them to provide projections for their New Mexico expansion.

#### HomeWise

Mr. Cummins said HomeWise started in Santa Fe, and about a year ago opened an office in downtown Albuquerque. They have been successful in helping low income individuals buy a home. He said he met with Executive Director Mike Loftin at their office on Coal and 2nd Street in July. HomeWise has had loan requests from small businesses located in the downtown area, primarily related to buying the building they rent. Mr. Loftin believes there is enough demand for a \$5 million line of credit from the NMSBIC for owner-occupied small business real estate loans. He and Mr. Cummins have discussed starting smaller, and establishing some success stories before expanding the program. HomeWise would like to offer a mini-perm loan with a

five-year term, and also provide technical assistance to borrowers to help them get refinancing with a traditional bank. Mr. Cummins said that, given HomeWise's expertise is in residential lending, he has additional research to do regarding their experience and capabilities to originate and service small business loans.

Chairman Badal said he is familiar with HomeWise in Santa Fe, which has a very good reputation, and recommended pursuing a relationship in the \$2 million range to start, assuming Mr. Cummins can get comfortable with their underwriting ability for business loans. He would also pursue how they finance their residential real estate developments and see if there is an opportunity there.

#### Community Bank Loan Participations

Mr. Cummins said he attended the ICBA (Independent Community Bankers Association) in July. He said there are about 30 community banks in New Mexico with varied interests, needs, requirements and restrictions. For some, the idea of participating loans doesn't interest them; however, there are might be some banks where a participation program would make sense.

Mr. Cummins stated that he met with Scott Edwards (Edwards & Associates) while at the ICBA Conference. Mr. Edwards currently provides external loan review for 20 of the 30 banks in New Mexico. In discussing a loan participation program with him, Mr. Edwards feels there would be some New Mexico banks with interest in a loan participation program, and would be happy to make introductions with the banks. Mr. Edwards offered to provide a service whereby the loan package would go to him or his staff, who would do a loan analysis for \$400 per loan.

Mr. Cummins said he has also met other local bankers regarding a possible NMSBIC loan participation program.

Chairman Badal suggested bringing a deal to the board for discussion.

#### Nusenda Co-Op Program

Mr. Cummins said that, under this program, Nusenda finds borrowers that can't qualify for a loan with The Loan Fund or Accion, and provide loans to those small businesses that are "pre-Accion" and "pre Loan Fund." Mr. Cummins said he has discussed a potential lending relationship with Nusenda, and discussions are continuing.

#### Other Matters

Mr. Cummins said he would be making a presentation at the New Mexico Legislature Investments & Pensions Oversight Committee on September 5 with an update on the NMSBIC's lending program and future plans.



Ms. Cummins stated that the New Mexico Economic Development Department is sponsoring an economic development and rural strategies conference in Albuquerque on September 26-27, and he has been invited to serve on a panel on the second day. Governor Lujan Grisham is scheduled to speak at the conference.

[Break.]

#### **LIMITED PARTNERSHIP EXTENSION AGREEMENTS FOR VERGE I, VERGE II AND VERGE II.5**

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Mr. Cummins said three one-year extension agreements are proposed for Verge I, Verge II, and Verge II.5.

-- Verge I: the SBIC's interest is 11.8 percent. The NMSBIC's approval isn't necessary, but Verge would like to get approvals from all of the LPs nonetheless. Sun Mountain Capital has the largest interest share. Tom Stephenson has indicated that if Sun Mountain makes any changes, this will have to go back to the NMSBIC at its next meeting for approval of the changes.

-- Verge II and II.5: NMSBIC approval is needed. Verge is requesting one-year extensions, to 2020.

**Mr. Garcia moved to extend the three partnerships for one year. Mr. Morgan seconded the motion, which passed unanimously.**

#### **GASB CONVERSION UPDATE**

##### **Net Excess Funds**

Mr. McDonald said the GASB conversion creates an inconsistency in the way a limited partnership values or reports on the SBIC's financial statements, which in turn creates an inconsistency in the net excess of funds calculation each year.

Mr. McDonald said Dee Brescia went back and recalculated the net excess of funds calculation for 2016, 2017 and 2018 as if the NMSBIC were reporting on a GASB basis in those years, and compared that to how the SBIC reported under FASB in those years. The result was that, in 2016, the NMSBIC had net excess of funds and paid over \$2 million to the Severance Tax Permanent Fund under the prior FASB method. Had it been using the GASB method for 2016, it would not have been obligated to return any funds to the severance tax permanent fund. In subsequent years, if GASB had been used, NMSBIC would have paid returned net excess funds. His view is that the NMSBIC should treat the \$2 million paid in 2016 as a credit, less amounts that would have been paid in 2017 and 2018 if GASB had been used in those years. His opinion was detailed in a memo provided to the Board.

### **Annual Report Reformat**

Mr. Cummins stated that the annual report format would change under GASB because the NMSBIC is required to provide a management discussion and analysis as part of the financial statements. He reviewed what changes would be necessary.

### **ALBUQUERQUE JOURNAL NEWS ARTICLES**

Mr. Cummins provided copies of recent articles that appeared in the Albuquerque Journal, including a positive editorial from the *Albuquerque Journal*.

### **JOSEPH BADAL LETTERS TO JOHN BINGAMAN**

Mr. Cummins referred to two letters in the board packet, both to the Governor's Chief of Staff, John Bingaman, regarding the five members' willingness to continue serving on the board, and recommending Bill Dolan as a potential appointee.

### **BOARD CONTINUING EDUCATION**

Postponed to the next meeting.

### **CHAIRMAN'S COMMENTS**

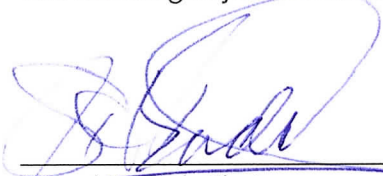
Chairman Badal said board members had recommended donating \$2,000 to WESST for their contribution to the community and WESST's generosity in allowing use of their facilities. He commented that the NMSBIC received a very nice letter from Kim Blueher and Agnes Noonan for this gesture.

Chairman Badal thanked Mr. McDonald for his GASB analysis, which was well done and very helpful.

Chairman Badal complimented Mr. Cummins for all of his work contacting potential counterparties, attending conferences, spreading the word about the NMSBIC, and obtaining information for the NMSBIC to review. He is encouraged about the doors Mr. Cummins has opened to potential deployment of funding.

**ADJOURNMENT**

The meeting adjourned at 11:45 a.m.



\_\_\_\_\_  
Joseph Badal, Chairman

10-25-2019

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Date