

MINUTES OF THE
NEW MEXICO SMALL BUSINESS INVESTMENT CORP.

August 24, 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 (initially by telephone)
Mr. Joseph H. Badal, Vice Chair
Mr. Steven E. Morgan
The Hon. Tim Eichenberg, New Mexico State Treasurer

Members Excused

Mr. Guadalupe Garcia
Ms. Roxanna Meyers, 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:

Ms. Holly Bradshaw-Eakes, Finance New Mexico

REVIEW AND ACCEPTANCE OF AGENDA

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

REVIEW AND ACCEPTANCE of June 22, 2018 BOARD MINUTES

Mr. Morgan moved acceptance of the June 22, 2018 minutes, as presented. The motion was seconded by Mr. Eichenberg and passed unanimously.

FINANCIAL REPORTS AS OF JUNE 30, 2018, AND JULY 31, 2018

[Deferred pending Chairman Fowler's arrival at meeting.]

EXECUTIVE DIRECTOR/INVESTMENT ADVISOR REPORTS

- Loan Reports

- Accion has a proposed increase in lending limit from \$7.75 million to \$9.75 million. Accion's request for a \$2 million increase in their maximum funding amount was tabled at previous board meetings based on questions from the board about fast growth in Accion's loan balances and an increase in total charge-offs in 2017. Mr. Cummins provided an update on Accion's current charge-offs. Mr. Badal concurred with Mr. Cummins' recommendation that the board continue to monitor the charge-off rate before considering an increase.

- The Loan Fund's loan balance is \$10.3 million, or 70 percent of its \$13 million maximum funding amount. Loan documents related to changes approved at the last NMSBIC board meeting are being reviewed by The Loan Fund.

- The NM Mortgage Finance Authority's (MFA) balance is \$700,000, or 47 percent of its \$1.5 million maximum funding amount. According to George Maestas at MFA, they expect to have new loans funding in November or December 2018, and might draw on the NMSBIC line of credit at that time.

- In May, Rio Vista Growth Capital (RVGC) paid its revolving line of credit to \$0. The loan to RVGC is a \$750,000 revolving line of credit that matures July 31, 2021. Mr. Cummins said RVGC's managing member Lynn Carrozza would like to terminate the agreement with NMSBIC. Mr. Cummins said Mr. McDonald prepared a termination agreement for RVGC, which Mr. Carrozza has signed and returned, but too late for it to be on today's agenda for board approval. He said he would add it to the September 24 meeting agenda for board action.

- WESST Corp's loan balance is \$45,130, or 12 percent of its \$375,000 maximum funding amount. For FY 2018, the interest earned under the WESST participation agreement, net of charge-offs, was negative \$165. Mr. Cummins noted that over the past five years, the interest yield on the WESST participation agreement, net of charge-offs, has been 2.72%.

Mr. Cummins added that WESST lending director Kim Blueher has told him NMSBIC money is very important to their program. Most of their loans are SBA loans, and she feels that having NMSBIC funding available for loans that don't fit the profile of SBA loans is crucial. He said WESST has roughly \$1 million in loans with funding primarily from SBA. Mr. Badal pointed out that WESST's real mission is advisory, and wondered if they might be interested in working with Accion and/or New Mexico Community Development Loan Fund to see if they might be willing to take over their loan portfolio.

- New Mexico Mezzanine Partners (NMMP) managing partner Mike Doolittle said this week that they are continuing to pursue payoffs of their two outstanding loans. One borrower is working on a round of equity capital that would payoff NMMP. On the second loan, discussions are underway with a potential buyer. Mr. Doolittle would like to give them until February or March 2019 for this potential acquisition. The extension to the NMMP partnership agreement expires in October 2019.

- Tom Stephenson, managing partner of the Verge Funds, notified Mr. Cummins that Verge I and Verge I.5 acquired an ownership interest in TruTouch Technologies from Flywheel Ventures for \$1,000, feeling that it would add value for Verge I and I.5 investors. When Mr. Cummins asked Mr. Stephenson

to sign the NMSBIC's Annual Compliance Certificate, which is done every year, Mr. Stephenson said he realized at that point that this might be an issue because TruTouch no longer met the definition of a New Mexico Business. Under the NMSBIC's legislation, the definition of a New Mexico Business is having its principal office and a majority of its full-time employees located in New Mexico. Mr. Cummins said he discussed the matter with Randy McDonald, who has reviewed additional documentation submitted by Mr. Stephenson. Mr. McDonald noted that the \$1,000 purchase is a de minimis amount, and none of the money would go to the company. Verge for the most part would just be acquiring shares in the same companies already held on behalf of NMSBIC under a different fund. For those reasons, he was not concerned about this as a potential problem.

[Chairman Fowler arrived.]

Mr. Cummins noted that New Mexico Community Capital also has an investment in TruTouch, which was a New Mexico company at the time the investment was made. NMCC managing director Michael Shafer has indicated the possibility of selling NMCC's investment in TruTouch to Verge Funds as part of his plans to close NMCC Fund I. Chairman Fowler commented that, based on the discussion today, the sense of the board is that what Verge has done and what NMCC may do are not issues unless Mr. McDonald brings back additional information indicating otherwise.

- SIC Core Plus Bond Pool value at 6-30-18 was \$8.4 million based on an original investment of \$8 million.
- Local Government Investment Pool annualized yield in July was 1.86 percent, and the balance is now roughly \$3.5 million.
- New Mexico Severance Tax Permanent Fund (STPF) balance increased to \$5.2 billion as of June 30, 2018, from \$4.9 billion the previous year, an increase of \$287 million. Based on STPF growth, it appears the NMSBIC might receive a distribution of approximately \$2.87 million from the STPF in the current fiscal year.

Mr. Badal suggested that the board have another discussion about its lending program. He commented that he wished there were another clearinghouse in New Mexico, like The Loan Fund, that the NMSBIC could help support.

Mr. Cummins commented that The Loan Fund and Accion have indicated that there will continue to be demand for their product, but that they have other constraints.

Mr. Cummins noted that the New Mexico Mortgage Finance Authority's (MFA) reason for having a line of credit with NMSBIC is because they believe they should diversify their funding sources, and not necessarily because they need the money. Mr. Badal said MFA is now financing the purchase of preexisting homes originally purchased by first-time homebuyers, so they can move up. He suggested there might be some financing possibilities there for the NMSBIC. Mr. Cummins said he would approach MFA about potentially increasing the allocation in their Primero program.

**FINANCE NEW MEXICO ANNUAL REPORT: HOLLY BRADSHAW EAKES,
PRESIDENT, HOLLY COMPANY STRATEGIES**

Ms. Eakes reviewed the Finance New Mexico (FNM) Annual Report and highlights from the past year.

Ms. Eakes reported that FNM is still reaching community-based newspapers, although it lost a few newspapers when Gannett purchased newspapers in Alamogordo, Artesia, Farmington and Carlsbad. She said she feels the papers bought up by the larger entities would eventually return, however, because they will be looking for that content again. FNM anticipated this well in advance and has been gradually increasing its presence in social media.

Ms. Eakes said FNM has been working with libraries on Launchpad, an online curriculum for entrepreneurship. She commented that libraries have great potential to serve as business incubators.

Ms. Eakes noted that the New Mexico Municipal League supports Grow It and provides funding for the program, which allows FNM to focus on articles to help drive the NMSBIC's lending program.

Ms. Eakes stated that The Holly Company has not received an increase on its contract with the NMSBIC for six years. With additional funding from the NMSBIC, they could be doing more strategic social media, brochures, etc.

Ms. Eakes requested an additional \$5,000 a year, which would increase the annual contract amount to \$22,500.

Mr. Badal and Mr. Eichenberg offered suggestions to Ms. Eakes on ways that FNM could expand its mission, and possibly attract more funding from other sources.

Mr. Badal suggested that Ms. Eakes look into ideas offered by the board today, and that the contract renewal be placed on the next agenda for action.

FINANCE NEW MEXICO PROPOSED CONTRACT RENEWAL

[Deferred.]

NEW MEXICO COMMUNITY DEVELOPMENT, PROPOSED CHANGES TO LOAN AGREEMENT

[Previously discussed.]

ACCION PARTICIPATION AGREEMENT, PROPOSED INCREASE IN MAXIMUM FUNDING AMOUNT

[Previously discussed.]

FINANCIAL REPORTS AS OF JUNE 30, 2018, AND JULY 31, 2018

Mr. Cummins presented these reports. He noted that financial reports are still "preliminary" given the NMSBIC's equity partners have not yet submitted their second quarter financial reports.

Mr. Badal moved acceptance of the financial reports. The motion was seconded by Mr. Morgan and passed unanimously.

BOARD CONTINUING EDUCATION INFORMATION

Mr. Cummins presented an August 16, 2018, press release announcing that BlueStone Venture Partners, LLC, which focuses on early stage financing, will receive up to \$3 million from the Catalyst Fund, which is managed by Sun Mountain Capital, to invest in New Mexico bioscience startups. The Fund is comprised of \$10 million in public funds allocated by the NMSIC, \$5 million from the U.S. Treasury's State Small Business Credit Initiative, and \$5 million from private institutional investors. Portfolio companies approved for investment from the Catalyst Fund will be expected to raise matching funds from private sources, bringing the total fund amount to \$40 million.

Mr. Cummins noted that the NMSBIC has decided not to invest in seed stage venture capital given the risk involved, but is pleased to see there are sources of funding now available in connection with the Catalyst Fund.

CHAIRMAN'S COMMENTS

Chair Fowler recommended that board members consider ways it can deploy the cash it has and expects to have in the future. Today's discussion was a good start and should be continued at the next full board meeting.

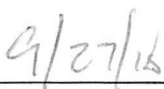
Mr. Badal said he has suggested Mr. Cummins develop a formal briefing with historical context on the decisions made and other pertinent details for a new board.

ADJOURNMENT

Its business completed, the NMSBIC Board adjourned the meeting at 11:10 a.m.



Alan Fowler, Chairman



Date