

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

**October 23, 2015**

A meeting of the New Mexico Small Business Investment Corporation was called to order on this date at 2:08 p.m. at the Los Lunas Transportation Center, 101 Courthouse Road, Los Lunas, New Mexico.

A quorum was present:

**Members Present**

Ms. Roxanna Meyers, Vice Chair

Mr. Joseph H. Badal, Past Board Chair [Elected Vice Chair and Vice President at meeting]

The Hon. Tim Eichenberg, NM State Treasurer

Mr. Lupe Garcia

Mr. Steven E. Morgan, Secretary/Treasurer [Reelected as Secretary/Treasurer at meeting]

**Members Excused:**

Mr. Alan Fowler, Chair [Reelected as Chair and President at meeting.]

Ms. Launa Waller

**Financial Advisor to Board**

Mr. Russell Cummins

**Legal Counsel Present:**

Mr. Randy McDonald

**Recording Secretary:**

Ms. Judith S. Beatty

**Guests:**

None

**REVIEW AND ACCEPTANCE OF AGENDA**

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

**REVIEW AND ACCEPTANCE OF SEPTEMBER 21, 2015 BOARD MINUTES**

Mr. Badal moved approval of the September 21 minutes, as submitted. Mr. Eichenberg seconded the motion, which passed unanimously by voice vote.

## **FINANCIAL REPORTS AS OF SEPTEMBER 30, 2015**

Mr. Cummins reviewed the financials as of September 30, 2015, noting that there are no major changes to report. Total assets are at \$37.3 million.

In reviewing total expenses, Mr. Cummins said the provision for loan loss in the amount of \$12,032 was primarily due to a reduction in the amount of Accion loans under the old lending program. The loss provision under the old program was 8 percent, and under the new program is 1 percent.

Vice Chair Meyers asked if the loans that were paid off in Accion's old portfolio were renewed to the new portfolio, or were they paid off. She said she wanted assurances that Accion was not refinancing loans from the old program and showing them as new loans under the new program. Mr. Cummins responded that he would research this question and report back.

Mr. Cummins noted that, as of this month, for New Mexico Growth Fund and New Mexico Mezzanine Fund, NMSBIC is now past the fund end date and they can no longer draw on those committed funds. Next month's financial report will show slightly over \$1 million in freed up funds, for a total of \$2.2 million available for lending.

Mr. Cummins referred to the quarterly IRR report, noting that the NMSBIC's total loan agreements have generated a life-to-date IRR of 1.1 percent. He noted that the old loan program under Accion, which generated losses of over \$1 million, is included in this life-to-date figure.

Mr. Badal said it wasn't clear to him whether the NMSBIC's lending partners' interest rates move with market rates. He asked Mr. Cummins to research how they adjust their rates to market. At a later point, perhaps in two years, the NMSBIC can discuss how it wants to set its rates as opposed to simply "fixing" them.

**Mr. Badal moved acceptance of the financial reports, as presented. Mr. Garcia seconded the motion, which passed unanimously by voice vote.**

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

### **a. Loan Reports; Equity Partner Detail; Take Away Report**

Mr. Cummins presented highlights.

#### **Accion**

-- Accion is at 83 percent of its \$6.5 million maximum funding amount, including NMSBIC funds that Accion has committed to borrowers. They are within roughly six months of absorbing the difference.

#### **The Loan Fund**

-- The Loan Fund is at 81 percent of its \$11 million maximum funding amount, and plans to request about \$2 million more by the end of the year.

Mr. Cummins reviewed updated audited financial statement information (as of 12/31/14) received from The Loan Fund. Liquidity is good, and loan performance has been very good, with minimal charge-offs in the past two years. Total loan balances have been growing. The Loan Fund is working to achieve a level of loans in the next few years, at which point they expect to be self-sustaining, with interest income from loans covering operating expenses.

Vice Chair Meyers commented that The Loan Fund has done extremely well, with very good lenders. The issue is whether they can train more lenders.

Mr. Badal suggested that Mr. Cummins ask them if they have excess capacity; and if not, what is their plan for going forward. Vice Chair Meyers agreed. She said NMSBIC isn't trying to micromanage, but needs to know what the plan is, regarding their lending staff.

#### MFA Primero Loan

-- NMSBIC advanced \$528,466 to MFA, bringing the outstanding balance on MFA's revolving line of credit to \$1,040,586, or 69 percent of the maximum funding amount. There is one loan with a \$500,000 balance shown as 1-30 days delinquent because of an address error on the invoice, and is not reflective of any problem with the customer's ability to pay.

#### WESST Corp

-- WESST is at 24 percent of its \$375,000 maximum funding amount.

#### Mesa Capital Partners

-- The real estate contract was paid in full as of August 18, 2015, with a final payment of \$156,184. Mesa New Mexico Growth Fund II (MNMGFII) paid a distribution to NMSBIC in August of \$62,623 related to the real estate contract payoff.

-- MNMGFII received a \$100,000 payment on the chile processing equipment lease in September, and paid a distribution of \$44,731 to NMSBIC related to the lease payment. MNMGFII has extended the final payment on the equipment lease to October 30. The remaining balance on the equipment lease is \$99,689. The lessee has indicated full payment will be made on lease by October 30, 2015.

#### Verge Funds

-- Verge will hold its annual limited partner meeting on November 5. Mr. Cummins will be in attendance.

#### IPOC Meeting, September 15, 2015.

Mr. Cummins reported that he attended the IPOC meeting as an observer. Outside of the meeting, he asked Steve Moise if he was aware of any discussions about having the NMSBIC "rolled up" into the NMSIC. Mr. Moise recalled discussion about how the NMSBIC financial results are rolled up into, and included in, the NMSBIC's financial statements, but was not aware of any discussion about the NMSBIC's

operations being rolled up into the NMSIC. Mr. Moise said he did not believe the NMSIC would support such a move.

## **STATE INVESTMENT COUNCIL, JOINT POWERS AGREEMENT FOR INVESTMENTS**

### **SHORT TERM INVESTMENTS**

#### **a. Certificate of Deposit Ladder versus SIC Investment Pool**

Mr. Cummins stated that the first item for discussion is whether the NMSBIC wants to enter into a joint powers agreement with the NMSIC; and if so, does it want to invest money in the NMSIC investment pool, and how much.

Mr. Cummins commented that Mr. McDonald had raised some interesting questions that the Board should consider before finalizing anything. He said he forwarded the questions to the NMSIC but there has not yet been a response.

Mr. McDonald discussed the questions he had posed.

-- The NMSIC had forwarded a copy of its JPA with the San Juan College Foundation. In reviewing it, he had noted that the DFA Secretary had signed off on it, and had asked whether this would be the case with the NMSBIC.

-- Given that the NMSBIC is a hybrid state/non-state organization, he asked if the NMSIC was confident that the NMSBIC would fit in with its statute that allows the NMSIC to have these agreements with state agencies, entities, etc.

Mr. Cummins said there were two questions asked at the last NMSBIC meeting.

-- The first was whether the NMSBIC could have access to the funds within two business days rather than the five business days required in the agreement. The NMSIC responded that they could not change the requirement. Mr. Cummins said that, if the NMSBIC keeps sufficient funds for short-term cash needs in a money market account, he sees no problem with the five-day turnaround time.

-- Upon termination, rather than having the NMSBIC's investments terminated within 90 days, to allow the NMSBIC to liquidate investments on its own timeframe. Mr. Badal had noted at the July 24, 2015 board meeting that this might result in the NMSIC forcing the NMSBIC to liquidate at a loss. The NMSIC responded that they could not change the termination provision, which is designed to prevent participants from short-term trading in the fund. Mr. Badal has indicated that he would agree to move forward without any change to the termination language.

Mr. Cummins reviewed his recommendation that the only NMSIC investment pool appropriate for the NMSBIC's short-term investments, would be the US Core Plus Bond Pool. Returns over the last calendar year to date have been 1.92 percent, and over the past year, 4.98 percent. When he was at the IPOC meeting on September 15, NMSIC CIO Vince Smith stated that he thought bond funds in general, including this bond fund, would likely earn around 3 percent over the next three to five years.

Mr. Cummins stated that, while there is interest rate risk and credit risk, it appears the historical returns have compensated for the risk, and the SIC US Core Plus Bond Pool is worth consideration as a replacement for the NMSBIC's CD ladder strategy. The current target balance for the CD ladder strategy is \$4 million, and the current investment rate is 0.35 percent. He reviewed a table showing the differences in returns for \$4 million invested in the CD ladder versus the US Core Bond Pool over certain periods.

Mr. Garcia asked Mr. Cummins how much additional work would be involved for him if the NMSBIC were to take advantage of this investment program. Mr. Cummins responded that it would probably be less work than maintaining the ladder program.

**Mr. Eichenberg moved for approval, based on the Joint Powers Agreement being substantially the same as the one presented to the NMSBIC at this meeting, and subject to Mr. McDonald's questions being answered by the NMSIC. Mr. Morgan seconded the motion, which passed unanimously by voice vote.**

#### **ELECTION OF NMSBIC OFFICERS AND AUTHORIZED BANK ACCOUNT SIGNORS/ANNUAL OPEN MEETINGS ACT RESOLUTION**

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Mr. Cummins stated that terms would go into effect today and end at the annual meeting in October 2016.

Mr. Badal commented that the next 18 months are critical for the NMSBIC from a legislative standpoint, and the NMSBIC is very low on funds. He recommended that a strategic session be scheduled to discuss ways of bringing in additional monies. As the Governor's chief of staff stated, the NMSBIC is the only economic development type entity in New Mexico that is actually making money.

Mr. Badal said he felt Alan Fowler should continue as Chair and President given his familiarity with individual legislators and ability to take a proactive role on behalf of the NMSBIC. He said he spoke with Mr. Fowler today to gauge his interest, and Mr. Fowler said he would be interested in continuing.

**Mr. Badal nominated Alan Fowler as Chair and President. [There were no other nominations.]**

**Vice Chair Meyers nominated Joseph H. Badal as Vice Chair and Vice President. [There were no other nominations.]**

Mr. Morgan said he has been Secretary/Treasurer for two years and would be willing to continue in that role if there were no concerns about that.

Board members agreed that the process should be revised to reflect that capital calls be authorized by any two officers. Under the existing process, one of the signors must be the Secretary/Treasurer.

**Mr. Eichenberg nominated Steve Morgan as Secretary/Treasurer. [There were no other nominations.]**

**Mr. Eichenberg moved that the following persons be elected to the following NMSBIC officer positions: Chair and President, Alan Fowler; Vice Chair and Vice President, Joseph H. Badal; Secretary/Treasurer, Steve Morgan; Past Board Chair; Joseph Badal; Past Board Chair; Roxanna**

**Meyers; Executive Director/Investment Advisor, Russell Cummins. Mr. Garcia seconded the motion, which passed unanimously by voice vote.**

**Mr. Eichenberg moved that the NMSBIC officers Chair and President, Vice Chair and Vice President, Secretary/Treasurer, and Past Board Chairs, be named as authorized signors on all NMSBIC bank accounts, with two signors required on bank account transactions, and that the Board authorizes the changing of signature cards to reflect the new officers, and that current signors will continue to be authorized to sign until such time as the changes are made to bank accounts; and that the authorized signors be the officers (excluding Mr. Cummins), and that any two authorized signors be authorized to approve a capital call. Mr. Garcia seconded the motion, which passed unanimously by voice vote.**

**Mr. Garcia moved to adopt the Open Meetings Act resolution in the form presented to the Board. Mr. Eichenberg seconded the motion, which passed unanimously by voice vote.**

#### **DISCUSSION OF PROPOSED CHANGES TO NMSBIC LEGISLATION**

[Deferred.]

#### **AUDIT AND/OR TAX WORK, REQUEST FOR PROPOSALS FOR JUNE 30, 2016**

Mr. Cummins stated that, at the February meeting, the Board approved an engagement letter for Pulakos to do the June 30, 2015 audit and tax work. The 2015 audit has been completed, and the tax work is still underway and scheduled to be completed in the next three to four months.

Mr. Cummins stated that, at the February meeting, Mr. Eichenberg suggested that, for the June 30, 2016 year-end, the NMSBIC consider having the audit and tax work done by two CPA firms.

Responding to Mr. Eichenberg, Mr. Cummins stated that this is the eighth year with Pulakos, with a rotation of the audit partner this year. He said there is no rotation requirement for the NMSBIC, as it is not a state agency.

Mr. Eichenberg stated that the State Treasurer's Office rotates auditors every four years, as it sees this as a good business practice.

Vice Chair Meyers pointed out that the NMSBIC's auditors cannot and do not audit the NMSBIC's equity partners. She said it is a good idea to rotate auditors, but for the record she wished to say, "Whomever we get is just a reiteration. There is no checking of any of that. I think it is prudent practice, but it is not what any of us would say is an audit of an ownership of a company."

Mr. Badal added that it would be very expensive to bring in a new auditor and bring them up to speed. He said Mr. Eichenberg has raised an interesting point. He suggested that the Board have this conversation a year from now. He said perhaps the time to change is when the equity partners are more stabilized and the NMSBIC has gotten additional money back the equity investments.

Mr. Cummins stated that he would bring this matter to the Board in October 2016. At this time, the Board will not be issuing an RFP for the June 30, 2016 year-end.

**2016 PROPOSED NMSBIC BOARD MEETING DATES**

The Board discussed tentative meeting dates in 2016.

**BOARD CONTINUING EDUCATION**

[Informational.]

**CHAIRMAN'S COMMENTS**

Board members discussed today's Community Meeting and agreed that it was successful, with good turnout, but ran too long. Suggestions were made on ways to streamline future events.

**ADJOURNMENT**

Its business completed, the NMSBIC Board adjourned the meeting at 4:15 p.m.



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Roxanna Meyers, Past Board Chair  
Alan Fowler

12/14/15

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Date