

**MINUTES OF THE**

**NEW MEXICO SMALL BUSINESS INVESTMENT CORP.**

**October 27, 2014**

A meeting of the New Mexico Small Business Investment Corporation was called to order on this date at 3:00 PM in the Fairfield Inn Board Room, 4305 N. Prince Street, Clovis, New Mexico 88101.

A quorum was present:

**Members Present**

Ms. Roxanna Meyers, Chair

Mr. Alan Fowler, Vice Chair

Mr. Lupe Garcia

Mr. Steven E. Morgan, Secretary/Treasurer

Mr. Clarence L. Smith [designee of Hon. James Lewis, State Treasurer]

Ms. Launa Waller

**Members Excused:**

Mr. Joseph H. Badal, Past Board Chair

**Financial Advisor to Board**

Mr. Russell Cummins

**Guests Present:**

Mr. Ron Brown, Community Member

Mr. Lynn Carrozza, Rio Vista Growth Capital

**REVIEW AND ACCEPTANCE OF AGENDA**

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

**REVIEW AND ACCEPTANCE OF JULY 18, 2014 AND SEPTEMBER 19, 2014  
BOARD MINUTES**

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Mr. Garcia moved approval of the minutes of the July 18 and September 19 Board meetings, as submitted. Mr. Smith seconded the motion, which passed unanimously by voice vote.

**FINANCIAL REPORTS AS OF JULY 31, 2014 (FINAL), AUGUST 31, 2014, AND  
SEPTEMBER 30, 2014**

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Mr. Cummins presented a financial statement recap for September 30, with highlights:

- Cash balances increased from \$2.7 million to \$4.1 million, and CDs dropped from \$6 million to \$4.5 million.
- Total loan balances dropped from \$12.4 million to \$12.2 million. Accion's combined balance was flat at about \$4.3 million and The Loan Fund's balance dropped from \$8.1 million to \$7.9 million.
- Equity investment balances were relatively unchanged.
- Total assets were relatively unchanged at \$36.1 million.
- The Funds Available for Investment and Operations report shows available funds of about \$2.8 million. Following adjustments, available funds are estimated at \$3,075,360.

Mr. Cummins noted that the Board made a decision in January 2013 not to set a specific percentage or dollar amount of funds the NMSBIC should reserve for operations, but that it should keep in mind it needs to have funds available for operations as well as investments.

[Chair Meyers joined the proceedings.]

Mr. Cummins said he and Chair Meyers recently met with SIC representatives Steve Moise and Charles Wollmann. Mr. Moise indicated that the SIC does not anticipate any significant funding coming to the NMSBIC in the near future from the Severance Tax Permanent Fund.

Mr. Cummins said he and Chair Meyers also discussed the possible repeal of the NMSBIC's net excess funds requirement. Mr. Moise indicated that it would be very helpful in getting the SIC's support if the NMSBIC could get support from the Governor's Office.

Given that the legislative process can be lengthy and it can take a long time for the NMSBIC to see returns on equity investments, Mr. Morgan suggested the Board revisit the idea of setting aside a reserve for operational funds for the next year to two years.

Mr. Cummins noted that one year's worth of operating expenses would be \$230,000 and two years would be \$460,000. If the Board wants to act on Mr. Morgan's suggestion at this meeting, it can address this later in the agenda when it decides how much to approve in funding requests.

**Mr. Morgan moved to accept the financial reports for July, August and September, as presented. Mr. Fowler seconded the motion, which passed unanimously by voice vote.**

## **NMSBIC IRR REPORT AS OF JUNE 30, 2014**

Mr. Cummins reported a life-to-date IRR in the NMSBIC's loan program of 0.9 percent at 6/30/14.

Mr. Cummins reported a life-to-date IRR in the NMSBIC's equity program of -11.4 percent at 6/30/14.

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

### **Loan Reports**

#### **Lending Partner Financial Statement Review**

#### **Equity End-of-Fund-Life Options**

#### **Take Away Report**

### **Accion**

-- The balance under the Prior Agreement with Accion has dropped from a high of \$3.5 million to \$2.3 million, and the balance under the 2013 Lending Program has increased to \$2.2 million. Accion's combined outstanding balances are \$4.5 million. Accion is at 96 percent of its \$5 million maximum funding amount and has requested their maximum funding amount under the new 2013 Lending Program be increased to \$6.5 million.

-- Over the past 12 months, Accion has deployed \$1.3 million and will likely be out of NMSBIC funds for lending in two months.

Mr. Cummins provided details on Accion's Presto loan program.

### **The Loan Fund**

-- The Loan Fund's outstanding loan balance increased from \$7.75 million as of the prior quarter-end to \$7.88 million. \$1.02 million in new loans were offset by \$894,100 in payoffs. The Loan Fund is at 79 percent of its \$10 million maximum funding amount and would like NMSBIC to increase that amount under their line of credit by at least \$2 million, and for the NMSBIC to allocate \$5 million to The Loan Fund for longer-term growth.

-- Over the past 12 months, The Loan Fund has deployed \$1.95 million and will likely be out of NMSBIC funds for lending in 14 months. They have \$1.2 million in NMSBIC funds of loans in their pipeline.

Chair Meyers noted that Accion has other funding resources. Mr. Cummins said that was correct; NMSBIC's fund represents about 30 percent of their total funding, and Accion receives the rest primarily from banks, including banks from out of state, although only a part of

Accion's funding from other sources is available to use in New Mexico. He said the additional \$1.5 million being requested from NMSBIC would give them approximately another year's worth of funding capability with NMSBIC's funds.

Mr. Cummins stated that NMSBIC has \$9 million in current assets, with \$6 million committed and \$3 million available.

#### WESST Corp

-- WESST's loan balance has dropped from \$87,800 at the previous quarter-end to \$65,660. WESST's outstanding balance is at 18 percent of its \$375,000 maximum funding amount.

Chair Meyers noted that WESST received the \$375,000 from NMSBIC seven years ago, and suggested Mr. Cummins contact them to see what plans they have to deploy the rest.

#### Equity Partner Detail

##### RVGC

-- Rio Vista Growth Capital (RVGC) has executed a term sheet with a company to fund a \$750,000 loan, which would be 100 percent of NMSBIC's committed amount. Included in the Board package is a request from RVGV to increase the limit of the NMSBIC line of credit by \$1.5 million to \$2.25 million.

-- It was noted RVGC plans to draw \$750,000 at one time for its anticipated loan closing. RVGC is planning on a simultaneous loan closing and draw from NMSBIC. NMSBIC has a control in place that limits ACH disbursements to no more than \$500,000 per day. For a \$750,000 draw request, the NMSBIC would fund \$250,000 on one day and \$500,000 the next day. One day's interest on the \$250,000 funded a day early is approximately \$1.03 and not considered worth changing the ACH cash control. A letter of clarification to RVGC was prepared, and reviewed by NMSBIC legal counsel, indicating that interest under the NMSBIC's note with RVGC will not begin to accrue for any draw until the draw request has been fully funded.

##### Mesa Capital Partners

-- A proposed resolution is included in the Board package, with approvals requested by Mesa New Mexico Growth Fund II, regarding a proposed recapitalization of the one active portfolio company in Fund II.

##### New Mexico Community Capital

-- Mr. Cummins and Mr. Morgan attended the NMCC Limited Partner annual meeting, where NMCC announced the sale of Wellkeeper. NMSBIC's share of NMCC's investment in Wellkeeper is about \$238,000. The Wellkeeper sale has a three-year payout. The first installment was received and deposited (\$205,000).

-- The NMCC fund has a scheduled end date of June 30, 2015, and can be extended for three one-year extensions with approval of 72 percent of the partners. At the LP annual meeting, NMCC discussed end-of-fund life, with a presentation from Perry Bendicksen III of the Rodey Law Firm. NMCC will contact limited partners for their vote on extending the fund before June 30 of next year. Given the number of active investments, extending the fund for one year appears to make sense.

-- A second option is to dissolve and distribute shares of common stock in the companies in NMCC's portfolio, and a third option is to create a liquidating trust.

#### Verge

-- The Verge annual limited partner meeting is scheduled on October 29.

-- The Verge Fund announced it is raising capital for a new fund, Verge II.5. The fund is expected to have less risk than a traditional venture capital fund, given the follow-on investments will be in Verge II companies that have eliminated most of the product, market, and team risk and are poised for significant growth and returns. It will be a five-year fund with \$4 million in LP commitments.

#### Other Matters

-- The Board continuing education session has been deferred to the next meeting so that Randy McDonald can be present for the discussion.

-- Mr. Cummins was invited by Steve Morgan to make a presentation about NMSBIC to the Association of Commerce and Industry's Economic Development Committee last week. It was very well received.

#### **RIO VISTA GROWTH CAPITAL, REQUEST FOR INCREASE IN LINE OF CREDIT: LYNN CARROZZA, MANAGING MEMBER**

Mr. Carrozza presented RVGC's request for an increase in their line of credit from \$750,000 to \$2.25 million, an increase of \$1.5 million, with no proposed changes to other terms in their existing agreement with NMSBIC.

Mr. Carrozza commented that all of their first company's revenue is coming from outside of New Mexico, which RVGC sees as very important as opposed to simply recycling money that is already here. He said RVGC has a senior position in this company, which has no bank debt, and RVGC plans to take a senior position in the next company.

Mr. Carrozza said some banks in New Mexico have not been rolling over their debt because of pressure to downsize. In a case where a company needs growth capital, they have to use revenue to pay their debt. He said RVGC feels it can play an important role here.

Mr. Carrozza stated that the second company, which has been in business for ten years and is very profitable, has spun off another company with huge potential. In this case, the older company is not able to get additional working capital from their bank on an existing loan. He said the older company, which has long-term contracts with Fortune 500 companies, has a line of credit with the bank at \$900,000. RVGC would like to take the senior position and provide them with the growth capital they need.

[Mr. Carrozza left the proceedings.]

#### **THE LOAN FUND, REQUEST FOR INCREASE IN LINE OF CREDIT**

#### **ACCION, REQUEST FOR INCREASE IN PARTICIPATION AGREEMENT**

Board members discussed various points raised with respect to the funding requests, recognizing that NMSBIC was on the verge of reaching its limit in lending activity with its existing cash.

-- NMSBIC has been encouraging The Loan Fund to diversify their funding sources for some time, and they have been successful in doing that. They have raised USDA money for lending outside of Albuquerque, which was a big change, and they have raised money from Bernalillo County and other sources.

— Accion liquidated \$3 million worth of securities because they have loan demand in New Mexico and in other states.

-- Not granting The Loan Fund's request could potentially reduce their ability to continue to grow.

-- It could be argued that NMSBIC is to some extent helping Accion fund loans in other states by providing them capital in New Mexico, whereas The Loan Fund is solely focused in New Mexico.

-- Rio Vista is a continuation of New Mexico Mezzanine Fund; however, the original discussion with NMMF was that NMSBIC would get the \$3 million back from NMMF and then possibly deploy those funds back into Rio Vista.

Chair Meyers noted that between 2012 and 2013 Accion liquidated their CDs and put it into loans, which is a 65 percent increase in micro-lending activity in one year at an average of \$11,500 apiece. She commented that this is a significant undertaking.

Chair Meyers suggesting lending The Loan Fund \$1.5 million rather than the \$2 million requested until NMSBIC can look at future cash flow in its portfolio. She commented that The Loan Fund has an excellent and experienced lending staff.

Mr. Garcia expressed concern about NMSBIC's cash flow situation and the need to reserve funds for possible losses, and suggested tabling Accion's request, funding \$1 million to The Loan Fund, and denying the request from Rio Vista.

**Mr. Garcia moved to increase The Loan Fund's line of credit by \$1 million. Mr. Smith seconded the motion, which passed unanimously on a show of hands.**

Ms. Meyers asked Mr. Cummins to provide information regarding the maturity dates of loans in Accion's prior loan program portfolio.

**Mr. Garcia moved to table the requests from Accion and Rio Vista. Mr. Fowler seconded the motion, which passed unanimously by voice vote.**

#### **MESA NEW MEXICO GROWTH FUND II, PROPOSED RESOLUTION**

- RECAPITALIZATION OF PORTFOLIO COMPANY**
- RESIGNATION OF KEY INDIVIDUAL OF GENERAL PARTNER**

Mr. Cummins stated that Mesa has one remaining active company, which is struggling. They have \$5 million per year in annual sales, but state that they have a "cash flow crisis" and are having difficulty meeting current obligations as a result. Moritz Schlenzig, one of the members of the GP of MNMGF II, who is also the company's CEO, has developed a plan to recapitalize the company. He would personally invest, or provide guarantees for an investment of, approximately \$550,000 to acquire the currently controlling shareholder's entire economic interest (debt and equity) in and provide new working capital to the company. Because of a conflict of interest, Mr. Schlenzig would resign as a member of the GP; and if the limited partners were interested in stepping into the transaction and taking over that position, the LPs would put in \$550,000 to recapitalize.

Mr. Cummins said NMSBIC is scheduled to receive monies back from Mesa New Mexico Growth Fund II (MNMGF II) from the sale of a building and an equipment lease. As a second

option, MNMGF II would be willing to take the cash flows (\$8,000 per quarter) and invest the monies into the recapitalization transaction on a pro rata basis.

Mr. Cummins said NMSBIC can choose to do nothing, and Mr. Schlenzig would then personally provide the financing for the recapitalization.

Mr. Cummins said the current estimated value of the NMSBIC's common stock in this company is zero and would remain at zero with the recapitalization.

Mr. Schlenzig is identified as a "Key Individual" in the partnership agreement, the GP feels that replacing him would be unnecessary and impractical given that the fund is in a wind-down process. Accordingly, the GP requests that the LPs waive the replacement requirement under the Key Individual provision.

Mr. Cummins stated that, given the history of losses in this fund, he would recommend not investing any additional funds in Mesa New Mexico Growth Fund II. He also agreed with the GP's recommendation that it would not be necessary to replace Mr. Schlenzig as a member of Mesa Capital Partners.

Mr. Cummins presented the proposed resolution:

RESOLVED, that the NMSBIC Board of Directors approves the following related to the Mesa New Mexico Growth Fund II Limited Partnership:

1. The NMSBIC elects to (i) not invest any additional funds in the partnership related to the recapitalization of the partnership's one active portfolio company, and (ii) elects to continue to receive cash distributions related to the building sale and equipment lease, with such funds not to be invested in the remaining portfolio company.
2. The NMSBIC approves that, upon the resignation of Moritz P. Schlenzig as a member of the General Partner, the General Partner shall not be required to replace Mr. Schlenzig.

Mr. Fowler moved approval of the resolution, as presented. Ms. Waller seconded the motion, which passed unanimously by voice vote.

#### **THE HOLLY COMPANY, WEBSITE MAINTENANCE CONTRACT RENEWAL**

Mr. Cummins stated that The Holly Company has proposed renewing its website maintenance contract at the same terms and pricing agreed to last year, for a one-year term on December 1, 2014 to November 30, 2015, for \$2,000 plus New Mexico gross receipts tax, and



plus other direct expenses related to the website domain name and hosting expenses. Last year there were no other direct expense, and in the prior year other direct expenses totaled \$180.

**Ms. Waller moved for approval. Mr. Morgan seconded the motion, which passed unanimously by voice vote.**

**SHORT TERM INVESTMENTS:**

-- CASH FORECAST

-- REINVESTMENT OF \$1.5 MILLION CD MATURING DECEMBER 8, 2014

Mr. Cummins stated that, as cash needs arise and disbursements are made, NMSBIC will be transferring funds from First National Santa Fe into US Bank, which is the operating account.

**Based on the cash flow forecast, Mr. Cummins recommended rolling the CDs as they mature into the money market accounts at First National Santa Fe at 25 basis points.**

**Mr. Fowler so moved. Mr. Garcia seconded the motion, which passed unanimously by voice vote.**

**ELECTION OF NMSBIC OFFICERS AND AUTHORIZED BANK ACCOUNT SIGNORS**

**Mr. Garcia moved the following slate of officers:**

Chair and President: Alan Fowler

Vice Chair and Vice President: Roxanna Meyers

Secretary/Treasurer: Steve Morgan

Past Board Chair: Joe Badal

Executive Director/Investment Advisor: Russell Cummins

**Ms. Waller seconded the motion, which passed unanimously by voice vote.**

**Mr. Fowler moved that the NMSBIC officers Chair and President, Vice Chair and Vice President, Secretary/Treasurer, and Past Board Chair, be named as authorized signors on all NMSBIC bank accounts, with two signors being 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. Mr. Garcia seconded the motion, which passed unanimously by voice vote.**

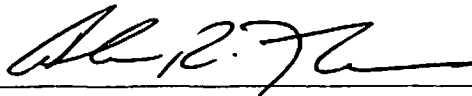
**2015 PROPOSED NMSBIC BOARD MEETING DATES**

[Tabled.]

**BOARD CONTINUING EDUCATION [DEFERRED TO DECEMBER 8, 2014 MEETING]**

**ADJOURNMENT**

Its business completed, the NMSBIC Board adjourned the meeting at 6:20 p.m.



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Alan Fowler, Chair.

12-8-14

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Date

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