

MINUTES OF THE
NEW MEXICO SMALL BUSINESS INVESTMENT CORP.

December 9, 2019

A meeting of the New Mexico Small Business Investment Corporation was called to order on this date at 9:00 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. Alan Fowler (arrived 9:30 a.m.)
Mr. Guadalupe Garcia
Mr. Steven E. Morgan, Secretary/Treasurer
Mr. Sam Collins, Deputy State Treasurer, as designee of State Treasurer

Members Excused

Ms. Roxanna Meyers, Vice Chair

Financial Adviser to Board

Mr. Russell Cummins

Board Legal Counsel

Mr. Randy McDonald

Recording Secretary

Ms. Charmaine Clair, for Judith Beatty

Guests Present

Ms. Jill Cook, Manager of Human Resources, HomeWise
Ms. Johanna Gilligan, Director of Community Development, HomeWise
Ms. Juanita Hallstrom, RCAC Loan Fund Director [by telephone]
Ms. Holly Bradshaw Eakes, Owner of Holly Company Strategies

REVIEW AND ACCEPTANCE OF AGENDA

Mr. Garcia moved for approval. The motion was seconded by Mr. Morgan and passed unanimously.

REVIEW AND ACCEPTANCE OF OCTOBER 25, 2019 BOARD MINUTES

Mr. Morgan moved for approval. Mr. Garcia seconded the motion, which passed unanimously.

FINANCIAL REPORTS AS OF OCTOBER 31, 2019

Mr. Cummins presented highlights:

- Approximately \$57 million is anticipated from the Severance Tax Permanent Fund in January 2020. About \$4.4 million is available for investment. Once Ventana Fund documents are signed today by the Chairman, available funds will drop to about \$2.4 million.

Mr. Garcia moved for approval of the financial reports, as presented. Mr. Morgan seconded the motion, which passed unanimously.

HOMEWISE, PROPOSED NMSBIC REVOLVING LINE OF CREDIT: JOHANNA GILLIGAN, DIRECTOR OF COMMUNITY DEVELOPMENT; JILL COOK, HUMAN RESOURCES MANAGER

Mr. Cummins stated that HomeWise CEO Mike Loftin indicated to him that, since they have opened their offices in downtown Albuquerque at 2nd and Coal, small business owners located in the downtown area have approached them asking for small business loan assistance so they can buy the buildings they currently rent. Mr. Cummins commented that there is an opportunity for HomeWise to help these small business owners purchase their building, and for Homewise to provide technical assistance to help the small businesses eventually obtain permanent financing from a traditional bank.

Mr. Cummins said Mr. Loftin and Ms. Gilligan feel that there is enough demand for a \$5 million line of credit from NMSBIC for owner-occupied small business real estate loans. He reviewed a discussion term sheet. It is proposed that NMSBIC would start out by providing a \$2 million revolving line of credit, which would be increased with success of the program. As was done with the Ventana Fund, "the NMSBIC's loan shall at all times be collateralized with portfolio company loan balances so that the NMSBIC's loan is less than or equal to 50% of the lower of the appraised value, or cost, of the collateral."

Ms. Gilligan said they have been approached with inquiries about loans as low as \$300,000 and as high as \$550,000. The hope is to test the success of the program with some smaller loans and then return to the NMSBIC to discuss the possibility of continuing the program with a higher revolving line of credit.

Mr. Cummins noted that all NMSBIC agreements include a provision stating that the borrower will make reasonable efforts to originate most of the portfolio companies outside of the Albuquerque Metro area.

Ms. Gilligan responded that she could roughly estimate that half of the loans would be in Albuquerque and half in Santa Fe. Once they have their feet on the ground with this program, she thought they might be able to expand into other areas.

Chairman Badal cautioned that commercial property in downtown Albuquerque has been problematic for years, and would advise HomeWise to do their research in hiring appraisal firms that are familiar with the area.

Chairman Badal said he was impressed with HomeWise's mission and underwriting policies.

Mr. Morgan moved to approve the \$2 million line of credit according to the terms as stated in the term sheet, and the authority for Chairman Badal to sign any related loan documents. Mr. Garcia seconded the motion, which passed unanimously.

EXECUTIVE DIRECTOR/INVESTMENT ADVISOR REPORTS

DreamSpring

-- A proposed \$2 million increase in their maximum funding amount was tabled at the last board meeting, and the NMSBIC continues to monitor charge-offs before considering an increase.

The Loan Fund

-- At the last meeting, the board approved an amendment to their line of credit, allowing The Loan Fund to draw on closed loans as well as loans in their pipeline. In the last quarter, The Loan Fund drew \$4.5 million, of which about \$3.5 million was for pipeline loans.

Chairman Badal referred to page 18 in the board package, which reflects the NMSBIC's loan loss experience, and pointed to the amazing job The Loan Fund does in underwriting their loan portfolio. Mr. Cummins noted that the \$11,518 in life-to-date cumulative loan write-offs for The Loan Fund is from a prior participation agreement that was done away with many years ago. Since that agreement was changed to a revolving line of credit, losses with The Loan Fund have been zero.

NM Mortgage Finance Authority

-- Development Loan Manager George Maestas has indicated that MFA would have loans closing this quarter. Their current balance is \$700,000, with a line of credit up to \$2.5 million, and he anticipates that MFA will be drawing on that either this quarter or next quarter.

Chairman Badal noted that Director Jay Czar recently retired, and asked that the person who is hired to replace him be invited to present an update to the board.

Ventana Fund

-- A \$2 million line of credit was approved at the last board meeting, and documents are ready to sign today.

Mr. Garcia noted that the board seems to be moving more into funding for housing and real estate development with relatively less emphasis on small business loans.

Chairman Badal said he felt the board was moving in the right direction and should stay alert for new opportunities.

Mr. McDonald said the statute has two purposes for the Act, one of which addresses making loans to small businesses, and the other of which is to “create new job opportunities by providing capital for land, buildings or infrastructure for facilities to support new or expanding businesses.” He said this is consistent with the board is doing.

WESST Corp

-- WESST’s loan balance is \$60,840, or 16 percent of its \$375,000 maximum funding amount.

Chairman Badal asked if the NMSBIC could do anything to help them expand their portfolio and “think outside the box.”

Mr. Cummins responded that he would talk with WESST’s Director of Lending, Kim Blueher. He added that WESST has a participation agreement similar to the old Accion participation agreement. In the past he has discussed with Ms. Blueher the idea of changing the participation agreement to a revolving line of credit, similar to what NMSBIC has with The Loan Fund. He does not see a need to make any change now, but if the NMSBIC expands it’s relationship with WESST, we should consider changing to a revolving line of credit.

Flywheel Ventures, NM Gap Fund I

-- The NM Gap Fund I limited partnership is set to expire in February 2020. Mr. Traylor is not sure it makes sense to extend again, as he is not sure they will be able to add enough value to either of the two remaining companies in the portfolio, to justify the NMSBIC paying ongoing management fees. He is considering options of either creating a liquidating trust or distributing company shares to limited partners.

New Mexico Community Capital

Mr. Cummins stated that the limited partnership, as amended, is scheduled to terminate on December 31, 2019. In discussion with NMCC Managing Director Michael Schafer on a possible

extension, Mr. Schafer indicated extending the partnership does not appear likely, and he may either create a liquidating trust or distribute shares on the termination date. Further discussion on NMCC was deferred until later in the meeting.

Chairman Badal asked Mr. Cummins and Mr. McDonald to come up with a plan that might involve hiring someone on a short-term basis to manage direct equity investments the NMSBIC might receive as distributed shares from a closed equity fund. He added that most the current equity investments are from venture funds approved by the previous board and are now in the process of winding down. He expressed concern about the amount of time Mr. Cummins might be dedicating to managing direct equity investments, as opposed to focusing on the expanding the lending program.

Mr. Fowler suggested that a portion of the shares could be given to a newly-hired manager as incentive for quick liquidation.

Potential New Lending Partners:

City of Albuquerque Economic Development Department

Mr. Cummins said he has been working with Nyika Allen, Director of Aviation at the Sunport, on a timeline. She will need approval of the loan documents from the city attorney, the city's bond counsel, and the FAA. They are still moving forward and hope to have the required approvals by February 1.

Lift Fund

Mr. Cummins said he continues to have discussions with Lift Fund regarding a potential lending relationship.

Community Bank Loan Participations

Mr. Cummins said the New Mexico Finance Authority indicated to him that they have a bank participation program. Under this program, community bank loans are submitted to the New Mexico Economic Development Department for review. If the loan is determined to be an "economic development loan," NMFA will purchase a participation interest in the loan from the community bank. CEO Marquita Russel said their funding for this program was recently cut, and that there might be an opportunity to partner with NMSBIC. He plans to have further discussions with Ms. Russel.

Nusenda Co-op Program

Mr. Cummins is continuing to have discussions with Robin Brule at Nusenda about their Co-op Program, which is currently funded by Nusenda and other partners. Nusenda is evaluating if they would be able to scale up the program and utilize funding from the NMSBIC.

Albuquerque Community Foundation (ACF)

Mr. Cummins said he is continuing to have discussions with Kelly Cooper at ACF regarding their Start Up, Stay Up, Scale Up program. He has let them know that NMSBIC wouldn't be interested in being an equity investor but might consider structuring a line of credit with a foundation partner guaranteeing the loans.

Mr. McDonald disclosed to the Board that he has in the past represented ACF and that the potential conflict would have to be addressed in the event that NMSBIC entered into a relationship with ACF.

Sun Mountain Capital Credit Fund

Mr. Cummins said he recently spoke with Brian Birk regarding Sun Mountain Capital's new credit fund that provides mezzanine-type debt to later stage companies with established cash flows and products. Mr. Birk was interested in seeing if the NMSBIC was interested in making an equity investment in the credit fund. Mr. Cummins said the NMSBIC would not be interested in that, but might consider a line of credit. Sun Mountain has raised about half of their \$50 million target, but the New Mexico portion would only be \$5 million, with \$45 million outside the state. Mr. Birk might consider creating a sidecar "New Mexico only" fund and then might consider leveraging about half of that, or about \$2.5 million, with NMSBIC funds.

[Break.]

RCAC, PROPOSED NMSBIC REVOLVING LINE OF CREDIT: JUANITA HALLSTROM, LOAN FUND DIRECTOR

Mr. Cummins introduced Ms. Hallstrom, who was calling in, to those attending.

Mr. Cummins said RCAC is a community development financial institution (CDFI) located in California and doing business throughout several Western states, including New Mexico, where they have been doing lending for some time. RCAC makes loans in rural communities with a population under 50,000 in the areas of water and wastewater, as well as community centers. RCAC also does small business loans and is interested in expanding that portfolio into rural areas of New Mexico. He said RCAC works with the USDA through their Rural Utility Service (RUS) program, where USDA guarantees permanent financing for water and wastewater projects and community centers, but will not provide financing for the predevelopment or construction. RCAC works with USDA to get a USDA guarantee on the permanent financing and once that is in place, RCAC will do the predevelopment and construction loan. They have a "take-out" with the USDA loan, and in many cases, RCAC will also do the USDA permanent loan and then package and sell the permanent loans to investors. He said RCAC would like to partner with the NMSBIC for the funding of predevelopment and construction loans.

Mr. Cummins stated to Ms. Hallstrom that NMSBIC legal counsel took a look at the water and wastewater loans the RCAC has done so far in New Mexico, and it appeared to be roughly 50/50, where half of the loans were to a nonprofit the municipality had established that was doing the project, and about half were the municipality itself. According to NMSBIC legal counsel, the loans to the nonprofits would meet the statutory requirement regarding loans to New Mexico businesses, but the loans to public bodies would not meet the definition of a New Mexico business.

Ms. Hallstrom agreed that it works out to about half and half, and she understands NMSBIC funds could not be used to make loans to public bodies, but nonprofits would be acceptable.

Responding to Mr. Morgan on whether the RCAC would lend money to a town like Vaughn, New Mexico, Ms. Hallstrom said RCAC does environmental loans to municipalities and to nonprofits. She said construction financing is typically hard to come by, so when a project like this comes to the RCAC, they have two options. They can provide the financing for both types and in a case such as Vaughn's, they could potentially have a take-out with USDA, where they would get a letter of commitment that provides long-term financing. For those entities that are too small, RCAC has dedicated lending capital to do long-term loans. The USDA guaranteed product is also for community centers, and if they can get a USDA guarantee, they will also make loans on community centers. She noted that, under the USDA's program, transactions can be made for community facilities, and business and industry.

Mr. Morgan asked if the approximately 1,000 nonprofit community water associations in New Mexico might be included. Ms. Hallstrom responded that, as long as the entity can continue to operate with the number of water connections that they have, and they can obtain USDA approval for permanent financing, RCAC could finance that project.

Ms. Hallstrom described other aspects of RCAC's work. This past year, they closed 97 transactions, the majority of which were loans, with some grants, and with a deployment of over \$79 million. She said most of the staff people work from home, with their corporate office in Sacramento providing support services. There are 156 RCAC staff members.

Chairman Badal said the State Board of Finance, of which he is a member, is regularly approached by a small community that is in extremely dire straits about the condition of their water or wastewater system. He said RCAC's services are much needed in New Mexico, as the emergency funding provided for this purpose from the legislature is limited.

Mr. Cummins reviewed the discussion term sheet, with a \$1 million revolving line of credit with a five-year term and an interest rate of 2 percent per annum. He said the other terms and requirements are similar to the NMSBIC's other loans. He and Ms. Hallstrom hope there is more demand than \$1 million, but the plan is to start out small and discuss expanding in the future.

Ms. Hallstrom said the RCAC would like to do more work for New Mexico and is interested in developing a method by which people could access the RCAC's website and make a request online.

Mr. Fowler moved approval for the NMSBIC to offer a \$1 million line of credit based on the amended term sheet on page 65 of the Board materials. Mr. Garcia seconded the motion, and the motion passed by voice vote, with Mr. Morgan in abstention, citing a potential conflict of interest.

NMSBIC WEBSITE HOSTING AGREEMENT RENEWAL: HOLLY BRADSHAW EAKES, HOLLY COMPANY STRATEGIES

Mr. Cummins recommended renewal of the website maintenance contract with The Holly Company for one year, from December 1, 2019, to December 1, 2020, with the same terms as the previous year and with no change in pricing (\$2,000 per year plus expenses).

Mr. Fowler moved for approval. Mr. Morgan seconded the motion, which passed unanimously.

Mr. Cummins said he asked Ms. Bradshaw Eakes to discuss how she can help increase public awareness of the NMSBIC, not just with the general public, but with lending partners, the Governor's Office, and legislators.

Ms. Bradshaw Eakes discussed goals and ideas:

- 1) Demonstrate the impact of the appropriation from the Severance Tax Permanent Fund. They would target state legislators and the Governor's staff so that the Governor's Office could make announcements about important developments and actions of the NMSBIC.
- 2) Attract potential investment opportunities by targeting economic developers, financial institutions, and municipal/county leaders through newsletters and/or press releases generated by the NMSBIC itself rather than Finance New Mexico. For instance, after each board meeting, the NMSBIC would generate a press release highlighting its activities. To complement this, the website should be cleaned up and streamlined.
- 3) Create a collateral piece to hand people to tell them about the NMSBIC. This could be a folder with inserts that can be changed out as needed, a rack card, etc.

Ms. Bradshaw Eakes made suggestions:

- Schedule annual appearances before the Economic & Rural Development Committee and the Legislative Finance Committee.

-- Invite legislators to attend NMSBIC board meetings when there is something relevant for them on the agenda. This would be good publicity for the legislators, who would be cited in the NMSBIC press release or communication.

-- Give talks before groups like Albuquerque Economic Development, Lea County, Rotary clubs, bankers groups.

Ms. Bradshaw Eakes said she could assist with some presentations.

Chairman Badal said that anything the NMSBIC can do to educate decision-makers in Santa Fe is a good thing. He said he had reservations about a collateral piece because of the expense involved.

Chairman Badal said personal testimony from people who have benefited from a small business loan is a powerful way to convey the message about what the NMSBIC does through its relationships with its business partners. He suggested focusing on that. He stated that he also thought the NMSBIC should set a goal of appearing before every Rotary Club in the state.

Mr. Cummins stated that Finance New Mexico promotes the NMSBIC's business partners, since it doesn't do direct lending. When the NMSBIC's name comes up in newspapers, he gets calls from small businesses asking if it can lend them money. He is happy to refer them to the NMSBIC's lending partners, but would prefer to get those people to the right place the first time around. Regarding publicity to the general public, he believes it's more effective to promote the NMSBIC's lending partners, than the NMSBIC itself.

Mr. Cummins said he would follow up with Ms. Bradshaw Eakes, and she can return to the board with proposals and pricing.

NMSBIC EMAIL HOSTING, PROPOSED CHANGE TO EMAIL HOSTING

Mr. Cummins stated that, since the last board meeting, he engaged an IT expert from Narus Technology Group to perform a security review of his home computer network. Narus recommended the following:

- Implement a Virtual Private Network (VPN) at all times (completed).
- Move the NMSBIC's email hosting service from Bluehost to Microsoft Office 365.

Mr. Cummins recommended moving the NMSBIC's email hosting service from Bluehost (provided by Holly Company) to Microsoft Office 365 at a cost of approximately \$12.50 per month, plus approximately \$325 for migration and setup.

Mr. Collins so moved. Mr. Morgan seconded the motion, which passed unanimously.

CITY OF ALBUQUERQUE ECONOMIC DEVELOPMENT DEPARTMENT, FINAL DOCUMENTS FOR LINE OF CREDIT

- Synthia Jaramillo, Director, Albuquerque Economic Development
- Nyika Allen, Director, Aviation Department
- Joshua Castellano-Gonzales, Fiscal Manager, Aviation Department
- Alan Varela, Assistant City Attorney

Ms. Allen reported that a resolution of intent was submitted to the City Council to allow them to continue with the project, which will be considered on December 16, and the recommended documents from the NMSBIC are under legal review by bond counsel and aviation attorneys. Once those are approved, and the NMSBIC signs off on them, the documents will be submitted to the FAA; and once those are approved, they will go to the NMSBIC for a final review and then to the City Council for final adoption.

In discussing the detailed process involved, Ms. Allen explained that this is unique for the FAA in terms of incentivizing development, and there are strict guidelines on “revenue diversion” because the airport is a closed fiscal system and money can only be expended for land improvement as opposed to economic development. She said checks issued to the borrower can only be for construction as opposed to design, for instance, and the intent in being cautious in this process is so the FAA will give its blessing.

An NMSBIC Board call-in meeting was scheduled for Friday, January 24 at 10:00 a.m. to discuss any updates and to answer additional questions.

NEW MEXICO COMMUNITY CAPITAL, PROPOSED LIMITED PARTNERSHIP AMENDMENT

Request to Waive NMCC Annual Audit

Mr. Cummins said NMCC Managing Director Michael Schafer has requested that NMCC limited partners waive their annual audit requirement. Year-end financials would still be provided, but without being audited, as Mr. Schafer has indicated there were no “auditable” events in 2019. The five other limited partners have agreed to waive the requirement.

Mr. Morgan moved to waive the audit requirement. Mr. Garcia seconded the motion, which passed unanimously.

Request to Extend the NMCC Limited Partnership Agreement

Mr. Cummins said the limited partnership agreement ends on December 31, 2019, and NMCC provided a proposed extension agreement to extend the partnership to either December 31, 2020 for one year; or when the proceeds are received from the Armed Response Team and Aspen Avionics. Mr. Schafer feels he can get both of those done by April 30.

Mr. Schafer indicated the other limited partners are not willing to pay a management fee to extend the NMCC partnership. He proposed that the NMSBIC could pay the full management fee (as opposed to the 48 percent pro rata share the NMSBIC paid in the past) in order to extend the partnership. Mr. Cummins said he discussed this with Chairman Badal and Mr. McDonald, and they did not feel this would be fair for the NMSBIC. Mr. Schafer stated he needed to move forward before the NMSBIC's December 9, 2019 board meeting, and in absence of extending the agreement, he planned to move forward with creating a liquidating trust or distributing the shares.

2020 PROPOSED NMSBIC BOARD MEETING DATES

Mr. Cummins reviewed the schedule, with the following additions: Friday, January 24, one-hour call-in meeting starting at 10:00 a.m.; and changing the April 24 start time to 10:00 a.m.

REMINDER: STATE OF NEW MEXICO DIRECTOR FINANCIAL INTEREST REPORTING FORMS

Mr. Cummins said he would provide the forms to each Director as soon as he received them.

BOARD CONTINUING EDUCATION

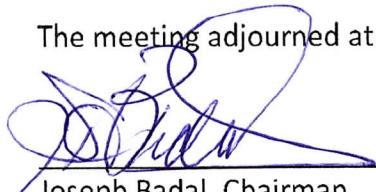
Mr. Cummins said he would continue to provide updated information from BBER and Federal Reserve Bank on a quarterly basis.

CHAIRMAN'S COMMENTS

Responding to Chairman Badal, Mr. Cummins said he would prepare a proposal regarding investments from the NMSBIC to any one counterparty for the February Takeaway Report.

ADJOURNMENT

The meeting adjourned at 12:10 p.m.



Joseph Badal, Chairman

1-24-2020

Date