

MINUTES OF THE

NEW MEXICO SMALL BUSINESS INVESTMENT CORP.

December 10, 2018

A meeting of the New Mexico Small Business Investment Corporation was called to order on this date at 9:06 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. Joseph H. Badal, Chair (by telephone)
The Hon. Tim Eichenberg, New Mexico State Treasurer
Mr. Guadalupe Garcia [joining by telephone at 9:58 a.m.]
Ms. Roxanna Meyers, Vice Chair [by telephone]
Mr. Steven E. Morgan [by telephone]

Members Excused

Mr. Alan Fowler, Secretary/Treasurer

Financial Adviser to Board

Mr. Russell Cummins

Board Legal Counsel:

Mr. Randy McDonald [by telephone]

Recording Secretary

Ms. Charmaine Clair, for Judith Beatty [by telephone]

Guests Present:

Representative-elect Jack Chatfield, District 67 [by telephone]

REVIEW AND ACCEPTANCE OF AGENDA

Ms. Meyers moved acceptance of the agenda, as published. Mr. Morgan seconded the motion, which passed unanimously.

REVIEW AND ACCEPTANCE OF OCTOBER 26, 2018 BOARD MINUTES

Ms. Meyers moved for acceptance of the October 26 minutes, as submitted. Mr. Morgan seconded the motion, which passed unanimously.

FINANCIAL REPORTS AS OF OCTOBER 31, 2018

Mr. Cummins reported no major changes to the assets on the balance sheets or to the income statement.

Mr. Cummins stated that there is \$7.4 million in available funds, including \$700,000 in cash reserves. The balance is expected to drop by \$1 million at the end of this month, when The Loan Fund's line of credit will increase from \$13 million to \$14 million. He said the NMSBIC is anticipating a contribution of about \$2.8 million from the Severance Tax Permanent Fund based on growth for the fiscal year ended June 30, 2018. With these changes, the NMSBIC may have more than \$9 million in available funds in the near future.

Responding to Chair Badal, Mr. Cummins stated that he felt the \$14 million increase to The Loan Fund's line of credit should hold them for at least one year, and probably two years. Chairman Badal commented that the NMSBIC needs to continue to think about alternatives to where it wants to commit funds so it can get the biggest bang for the buck from an economic development and job creation standpoint throughout the state.

Chairman Badal asked Mr. Cummins to follow up with the New Mexico Bankers Association to see if there has been any loosening up by the federal government in lending standards on the part of the banks. He commented that one reason why The Loan Fund has been so successful since 2008 is because the banks have been so tight on the lending side.

Mr. Eichenberg moved to approve the financial reports, as presented. Ms. Meyers seconded the motion, which passed unanimously.

EXECUTIVE DIRECTOR/INVESTMENT ADVISOR REPORTS

Accion

Mr. Cummins said it has been over a year since Accion requested an increase in their maximum funding amount to their participation agreement. In 2018, Chief Financial Officer Ray Ziler made a presentation to the board, stating that the increase in their charge-off activity in 2017 was due to one-time events. Since 2017, the NMSBIC has been monitoring Accion's charge-offs, anticipating that they would start come down; however, that has not happened.

Mr. Cummins recommended asking Accion representatives to appear at the February meeting to discuss this further, and that the NMSBIC put Accion's funding request on hold in the interim. Chairman Badal agreed. He said he would be interested in knowing what other entities, besides NMSBIC, are providing funding to Accion.

NMCC

Mr. Cummins reported that he attended an NMCC limited partner advisory committee meeting in November. Michael Schafer, NMCC Managing Member, believes they are still on track to get all investments sold or closed out by December 31, 2019.

Verge Funds

Mr. Cummins said he attended the Verge limited partner meeting on November 14. In general, it appears that most of their investments are on a path for exits in three to four years, with the exception of one company, which might happen sooner. The timeframe is in line with the 2022 end-dates for Verge II and Verge II.5. Additional extensions for Verge I and Verge I.5 will likely be requested.

Short-term Investments

Mr. Cummins reported that the value of the SIC core Plus Bond Pool as of October 31, 2018 is \$8,323,180 versus \$8 million in original principal invested. During the fiscal year, however, because of mark-to-market fluctuations, there was a negative return and an annualized net loss of 1.24 percent. He anticipates that this will come back, as the long-term expectation is to earn 3 percent.

Mr. Cummins stated that the Local Government Investment Pool's annualized net yield in October was 2.10 percent annualized on an average balance of \$3.52 million.

NM IDEA Conference

Mr. Cummins said he attended the NM IDEA conference on November 13-14. This is a group of economic development professionals throughout New Mexico. The meeting, which took place in Bernalillo, was productive. He discussed presentations made at the meeting.

NEW MEXICO MORTGAGE FINANCE AUTHORITY: PROPOSED INCREASE IN LINE OF CREDIT

At a previous board meeting, Mr. Cummins said he was asked to inquire regarding MFA's interest in, and ability to deploy, additional funds from the NMSBIC. MFA's Development Loan Manager George Maestas responded that MFA would be able to deploy an additional \$750,000 to \$1 million of NMSBIC funds. The NMSBIC's revolving line of credit to MFA is currently at \$1.5 million. An increase of \$750,000 would increase the loan to MFA from \$1.5 million to \$2.25 million, and an increase of \$1 million would increase the loan to MFA from \$1.5 million to \$2.50 million.

Mr. Cummins commented that the relationship with the New Mexico Mortgage Finance Authority (MFA) has been working very well since 2013; they are accurate with their quarterly reporting, they are timely, and they do a great job. Unaudited financial statements as of

September 30, 2019, indicate net income for the most recent fiscal year of \$10.4 million with a corresponding increase in net assets (equity).

Mr. Cummins recommended an increase to the NMSBIC's revolving line of credit to MFA from \$1.5 million to \$2.5 million.

Ms. Meyers so moved. The motion was seconded by Mr. Eichenberg and passed unanimously.

DOCUMENT RETENTION AND DESTRUCTION POLICY, PROPOSED REVISIONS

Mr. Cummins commented that Mr. McDonald has completed a project of comparing the NMSBIC's document retention policy to that of the State of New Mexico. Mr. McDonald noted that the NMSBIC is not subject to the state requirements. Mr. McDonald has also noted that there are certain categories where the current policy requires retention of ten years, and he is recommending changing everything to lifetime retention. Mr. Cummins concurred with this recommendation, noting that it does not add to the cost and is a conservative approach.

Mr. McDonald stated that the Commission on Public Records has adopted extensive regulations on how to comply with the State Public Records Act. These time limits and guidelines are for entities that are subject to the Act and there are recommendations for the retention preservation of records of state governmental entities not subject to the Act, which is where the NMSBIC fits in. He said he felt the NMSBIC's existing policy should be brought more in line with the state's policy.

Mr. McDonald said Mr. Cummins has been backing up documents, (1) to a cloud backup services, and (2) also on a hard drive at his house. Mr. Cummins includes NMSBIC emails in these backups. On page 3 of the amended and restated policy being recommended, it states, "All email related to the business activities of the NMSBIC shall be copied to the email account of the SBIC Executive Director." All emails at this point are going through each individual's personal account, and he is recommending that any email relating to the NMSBIC that is not either copied to Mr. Cummins or is not to or from Mr. Cummins, be forwarded to him. The policy also recommends that the SBIC not use text messaging for business or other activities other than for Transitory Messages, and that the SBIC not use Social Media unless approved by the Board of Directors with appropriate procedures in place for storage and retention.

Ms. Meyers suggested that Mr. Cummins look into the cost of having someone scan everything that is stored as hard-copies.

Mr. Eichenberg moved to approve the revisions for the Document Retention and Destruction Policy, as presented. Ms. Meyers seconded the motion, which passed unanimously.

PROPOSED SALE OF INTERESTS IN VERGE I AND NEW MEXICO COMMUNITY CAPITAL

Mr. Cummins stated that, after the Verge Annual Meeting, the representative of an institutional investor in Verge I asked him if the NMSBIC might be interested in acquiring his investor's interest in Verge I and possibly also in NMCC Fund I. He said the values of these investments are roughly \$65,000 and \$94,000, respectively. Given the small amounts involved, it might not be worth the cost on ongoing monitoring and managing these investments, and they might be willing to sell their interests at a discount. The representative still needs to discuss the matter with his investors, but asked him to see if the NMSBIC might be open to acquiring their interests, at a discount, and he will confirm with his investor if there is an interest to sell.

Chairman Badal said the risk/reward is in the NMSBIC's favor given that these are seasoned investments. He would be interested in making the investment if the terms are favorable. He commented that providing some stability to the equity partners by making this investment is also important.

Mr. Eichenberg said he did not want to set a precedent that the NMSBIC would be buying small investors out in the future. The board should also be cognizant of the fact that the NMSBIC is creating wealth and jobs in other areas.

Chairman Badal said it appears that the board is willing to go forward without making a firm commitment; if the deal looks favorable, the NMSBIC board would consider an offer..

2019 NMSBIC BOARD MEETING DATES

Board members agreed that future December meetings should be call-in meetings, barring any critical issues that would require people to be present.

Mr. Cummins said he would look into other possible venues for one or more of the board meetings in 2019.

- Friday, February 22, 2019, Innovate ABQ, 101 Broadway Blvd NE, Ste 1300, Albuquerque, NM 87102
- Friday, April 26, 2019, WESST Enterprise Center
- Friday, June 21, 2019, WESST Enterprise Center
- Friday, August 23, 2019, WESST Enterprise Center
- Monday, September 23, 2019, Limited Agenda, Call-in Meeting
- Friday, October 25, 2019, WESST Enterprise Center
- Monday, December 9, 2019, WESST Enterprise Center, Limited Agenda, Call-in Meeting

[Mr. Garcia joined the proceedings by telephone.]

CHAIRMAN'S COMMENTS

Chairman Badal wished everyone a Merry Christmas, and thanked Mr. Cummins for his hard work.

ADJOURNMENT

Its business completed, the NMSBIC Board adjourned the meeting at 10:00 a.m.



Joseph Badal, Chairman

2-22-2019

Date