

MINUTES OF THE
NEW MEXICO SMALL BUSINESS INVESTMENT CORP.

December 14, 2015

A meeting of the New Mexico Small Business Investment Corporation was called to order on this date at 9:00 a.m. at the WESST Enterprise Center, 609 Broadway Blvd NE, Albuquerque, New Mexico.

A quorum was present:

Members Present

Mr. Alan Fowler, Chair

Mr. Joseph H. Badal, Vice Chair

Mr. Lupe Garcia

Ms. Roxanna Meyers, Past Board Chair [by telephone; signing off at 10:00 a.m.]

Mr. Steven E. Morgan, Secretary/Treasurer [by telephone]

Ms. Launa Waller [by telephone]

Members Excused:

The Hon. Tim Eichenberg, NM State Treasurer

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

Item 9:10 was amended to "Financial Reports as of October 31 and November 30, 2015."

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

REVIEW AND ACCEPTANCE OF OCTOBER 23, 2015 BOARD MINUTES

Mr. Badal moved acceptance of the October 23, 2015 minutes, as submitted. Ms. Meyers seconded the motion, which passed unanimously by voice vote.

FINANCIAL REPORTS AS OF OCTOBER 31 AND NOVEMBER 30, 2015

Mr. Cummins reviewed the October and November financials.

Mr. Cummins noted almost \$13.6 million in market value for the equity funds, and discussed highlights from his report on the NMSBIC's equity partners.

Mr. Cummins stated that, to the extent that NMSBIC can get back the \$13.6 million, that is money it should be able to redeploy; but generally any monies returned on top of this during a fiscal year that exceed annual operating expenses and loss reserves for such fiscal year would be returned to the Severance Tax Permanent Fund. He said NMSBIC is currently offsetting its operating expenses with its interest income, and has accumulated unrealized losses that are treated as a reserve on the equity funds. We don't know if returns expected from two of the equity partners on June 30, 2016 will be greater than operating expenses and the loss reserve. Mr. McDonald's legal opinion is that the NMSBIC can offset its expenses and losses incurred in a fiscal year against any gains realized during the fiscal year before triggering the obligation to return money to the Severance Tax Permanent Fund under §58-29-7 NMSA 1978.

Mr. McDonald stated that the losses are calculated annually and are not cumulative. The reserve on the equity losses is calculated based on the unrealized losses in the portfolio.

Mr. Badal expressed concern about the NMSBIC being unable to sufficiently fulfill requests from its lending partners in the near future. While NMSBIC might see most or all of its \$13.6 million in investments returned, the timing of that is unknown.

Mr. Badal asked Mr. Cummins to prepare a report on each of the companies in the equity portfolio, with amounts invested, gains and losses, and other detail.

Mr. Badal moved to accept the financials. Mr. Garcia seconded the motion, which passed unanimously by voice vote.

[Agenda was reordered by unanimous consent.]

WEB SITE MAINTENANCE CONTRACT RENEWAL WITH THE HOLLY COMPANY

Mr. Cummins recommended that the Board renew the website maintenance contract with The Holly Company for one year, from December 1, 2015 to December 1, 2016. The cost is \$2,000 for the year, plus expenses for repairs and upgrades. During the past year, expenses were \$200.

Mr. Garcia moved for approval. Mr. Badal seconded the motion, which passed unanimously by voice vote.

EXECUTIVE DIRECTOR/INVESTMENT ADVISOR REPORT

a. Loan Reports, Equity Partner Detail, Takeaway Report

Accion

Accion's loan balance is \$5.3 million, or 81 percent of its \$6.5 million maximum funding amount. Based on net loan growth over the past 12 months, Accion might reach their maximum funding level in roughly 21 months.

The Loan Fund

The Loan Fund's loan balance is at \$9 million, or 81 percent of its \$11 million maximum funding amount. Based on net loan growth over the past 12 months, The Loan Fund might reach their maximum funding level in roughly 23 months.

NM Mortgage Finance Authority

MFA is at 69 percent of its \$1.5 million maximum funding amount. As three multifamily construction projects progress, MFA anticipates they will use the full amount in the next few months.

Chairman Fowler asked that an MFA representative either make a presentation to the Board or else provide a written update on how they feel their program is doing.

Rio Vista Growth Capital

RVGC continues to be at 100 percent of its \$750,000 maximum funding amount, which is in one loan. The loan continues to perform very well, Lynn Carrozza, the fund's managing member, indicates there is strong demand for this type of mezzanine lending.

Chairman Fowler suggested that the Board discuss this loan at the next meeting in terms of whether the NMSBIC should consider more loans of this type in the future, depending on availability of funds.

WESST Corp

WESST is at 23 percent of its \$375,000 maximum funding amount.

Flywheel Ventures – NM Gap Fund

Chris Traylor, Venture Partner with Flywheel Ventures, has indicated that there are three companies with good probability of providing additional upside value. He has been working closely with two of them to position them for exits. The fund end date, after all three extensions are granted, is March 1, 2017. Mr. Traylor feels the NMSBIC will likely maximize value by extending the LPA for one or two years beyond that date. He will provide an update to the NMSBIC Board at its February meeting.

Flywheel Ventures – Flywheel I-NMSBIC

There are no significant changes to report.

Mesa Growth Fund

The final equipment lease payment of \$100,726 was paid to New Mexico Growth Fund II on November 13, 2015. NMGF II then made a distribution to NMSBIC of \$45,436.42. All NMGF II investments, other than cash account balances, have been closed out. There is a winding-down period to allow for final cash settlements and reporting.

New Mexico Community Capital

NMCC had their limited partner advisory committee meeting on December 2, when they reviewed the status of the companies. They expect a profitable exit of one of their larger companies by June 30, 2016.

Verge Funds

Verge had their annual limited partner meeting on November 5. Verge is anticipating a profitable company exit in the next 12 months, for one of their larger companies. NMSBIC received distributions from Verge I and Verge I.5 related to the Wellkeeper performance payments of \$39,329 and \$56,541 respectively.

New Mexico Mezzanine Partners

NMMP has one company that is not performing as planned. There are efforts to try and sell the company, hopefully by the first quarter of next year. The other two companies are working on obtaining bank financing to pay off NMMP.

Joint Powers Agreement with the SIC

Mr. Cummins said he and Mr. McDonald are working with the SIC to finalize the Joint Powers Agreement that would allow the NMSBIC to invest in the SIC US Core Plus Bond investment pool. He recommended that the NMSBIC continue to maintain the majority of short-term investments in the First National Santa Fe money market account, which is earning 0.25 percent, until the JPA with the SIC is approved.

Other

Mr. Cummins noted that New Mexico Community Capital fund manager Michael Schafer recently indicated that, while the NMSBIC is currently at a -6.8 percent IRR, Mr. Schafer's best guess is that the fund will end up at a positive 6.1 percent IRR, after management fees and expenses. The final end date on this fund, if all three extensions are exercised, will be June 30, 2018. Mr. Schafer did indicate last year that NMCC would likely request all three extensions.

DISCUSSION OF PROPOSED CHANGES TO NMSBIC LEGISLATION

[Ms. Meyers signed off from the proceedings.]

Mr. Cummins stated that the NMSBIC has \$13.6 million invested in equity funds, Based on the best estimates from the fund managers, the \$13.6 million will be returned to the NMSBIC, and possibly there could be more. The \$13.6 million would not be realized gains, but based on the current legislation, any gains on top of that realized in a fiscal year, in excess of operating expenses and loss reserves for such fiscal year, would be returned to the Severance Tax Permanent Fund.

Mr. Badal said he feels the most important thing the NMSBIC can do is educate the decision-makers about the value of NMSBIC and to enlist Accion and The Loan Funds to be advocates in that message. The NMSBIC also should have a vision and a plan that looks two, three or four years out.

Mr. Garcia commented that the annual letter to the Governor, included in the NMSBIC's annual report, very clearly encapsulates the NMSBIC's mission, goals, accomplishments and challenges.

Mr. Badal agreed that the only way the NMSBIC has gotten the message out in the past is through its annual letter, but he does not recall ever seeing the media do an article about the NMSBIC and what it has accomplished. He suggested enlisting The Holly Company to work on this.

Mr. Cummins said the SIC's main focus is on return, and the NMSBIC's 1 to 1.5 percent return on equity does not meet the SIC's 7.5 percent return threshold. Chief Investment Officer Vince Smith has indicated to him that he cannot recommend any additional funding from the SIC for that reason. Mr. Cummins added that he feels the Joint Powers Agreement with the SIC will be beneficial in the NMSBIC's relationship with the SIC, because its excess short term investments would be invested in an SIC investment pool.

Mr. Badal commented that, when he first joined this Board, the SIC was rightfully concerned about the equity orientation of the NMSBIC. The NMSBIC responded to that because it made very good sense, and since then, the NMSBIC has done some really good things, particularly through its lending program.

There was consensus on the following:

-- Repealing the net excess funds statute, or changing the definition of net excess funds, is a desirable goal in the short term/long term.

-- The NMSBIC would like to have enough money to be able to have choices in the long term. This means asking for more money from current sources or seeking out new funding sources, such as from economic development programs. Once all the returns are in from the equity funds, the NMSBIC would not be able to provide \$2 million a year to its lending partners, after expenses and loss reserves, and based on a 2 percent interest rate earned on loans.

Mr. Badal noted comments from the Governor's Chief of Staff, Keith Gardner, that the NMSBIC was "the only economic development oriented organization in the state that wasn't losing money."

Mr. McDonald pointed out that "net excess of funds" could also refer to funding from other sources.

Board members discussed individually meeting with legislators.

The Board agreed that Mr. Cummins would assign a subcommittee to work with The Holly Company to develop a strategy for presentation at the next meeting.

[Break.]

FINANCIAL REPORTING FORMS FOR BOARD MEMBERS

Mr. Cummins said the forms have been emailed and should be filled out and returned by December 31.

EXECUTIVE DIRECTOR/INVESTMENT ADVISOR PROFESSIONAL SERVICES AGREEMENT: AGREEMENT EXPIRES JUNE 30, 2016

[Mr. Cummins left the room during this discussion.]

Board members discussed Mr. Cummins' work performance and agreed that it would not be necessary to issue an RFP.

2016 PROPOSED NMSBIC BOARD MEETING DATES

The Board agreed to hold the October Board and Community Meeting in Albuquerque, date to be determined. Board members said they did not have conflicts with the other proposed dates.

BOARD CONTINUING EDUCATION

The Board reviewed the Policy on Reporting of Non-Compliance with Laws, Regulations, or SBIC Policies. Mr. Cummins said he would update the policy to reflect the SBIC's new address.

In reviewing the Policy on Document Retention and Destruction, Mr. Cummins stated that Iron Mountain stores the NMSBIC's bankers boxes with original documents dating back to 2001. Since the end of 2012, records have been kept electronically. He said he has an electronic copy backed up to an external hard drive as well as to the cloud, and Dee Brescia also keeps a record of the financial records. Randy McDonald also keeps certain original documents such as loan agreements and minutes.

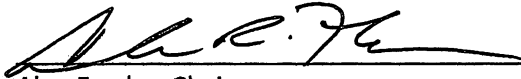
Chairman Fowler said he thought the system of records retention was adequate.

CHAIRMAN'S COMMENTS

Chairman Fowler thanked the Board members for their confidence in him in re-electing him as Chairman. He said the NMSBIC is a great organization and he has been proud to serve.

ADJOURNMENT

Its business completed, the NMSBIC Board adjourned the meeting at 11:35 a.m.



Alan Fowler, Chairman

1-20-16

Date