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NM SMALL BUSINESS INVESTMENT CORP

January 25, 2010

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MINUTES OF THE
REGULAR MEETING
NEW MEXICO SMALL BUSINESS INVESTMENT CORP.

January 25, 2010

A regular meeting of the New Mexico Small Business Investment Corporation was called to order on this date at approximately 10:00 a.m. in the conference room of the New Mexico Mortgage Finance Authority, 344 S. 4th Street, S.W., Albuquerque, New Mexico.

A quorum was present:

Members Present:

Mr. Andrew Baca, Chair
Mr. Sam Cobb, Vice Chair
Ms. Mary A. Garza
Mr. Billy Knight
Mr. Greg Kulka [designee of Adam Levine, Board Secretary]
Ms. Marie Longserre, Treasurer

Members Excused:

Mr. Kit Caldwell
Mr. Clarence L. Smith [designee of State Treasurer James Lewis]

Legal Counsel to Board:

Mr. Randy McDonald

Financial Advisor to Board:

Mr. Paul Goblet

Guests Present:

None.

APPROVAL OF AGENDA

"Board Communications" was added to the Agenda.

Upon motion by Ms. Garza, seconded by Mr. Cobb, the Agenda was approved by voice vote, as amended.

APPROVAL OF MINUTES: December 14, 2009

Ms. Garza moved approval of the December 14 Minutes, as submitted. Mr. Knight seconded the motion, which passed by voice vote.

REVIEW AND ACCEPTANCE OF FINANCIAL REPORT

Mr. Goblet reviewed REDW's Accountants' Compilation Report, which included a Statement of Activities for the five months ending November 30, 2009, and a November 30 Statement of Financial Position.

Mr. Goblet stated that he and Ms. Longserre have gone over these financials in detail and would be asking REDW to make certain changes and to provide more information in future financial reports to the Board, including additional line items,

Mr. Cobb moved to approve the Year to Date Financials as of November 30. Mr. Kulka seconded the motion, which passed by voice vote.

Mr. Goblet reviewed the December 14, 2009, cover letter from Pulakos, providing information relative to the audit conducted for the year ended June 30, 2009.

Ms. Longserre commented that this was a very good audit, and Pulakos issued a clean opinion.

REVIEW AND DISCUSSION REGARDING FINANCIAL FORECAST

Mr. Goblet reviewed NMSBIC's balances at Los Alamos National Bank and First Community Bank and commented that, with interest rates even lower in FY 2009-10, NMSBIC interest income is expected to be less than \$650,000. He noted that CDs will be maturing at LANB in March and August at 2.1%, 1.65% and 2.0%, and those interest rates are higher than what can be expected in the coming year.

Mr. Kulka noted that First Community Bank is about to be de-listed on the stock exchange, and asked Mr. Goblet if he thought they might be unwilling to meet the NMSBIC's 100% collateralization requirement in the future.

Mr. Knight commented that, based on their financials from the last quarter, he understood First Community was specifically instructed not to do any more collateralized CDs.

Mr. Goblet said he would talk with First Community.

Mr. Cobb said he wanted to be sure the NMSBIC had somewhere to invest the two CDs maturing in March. He added that he would rather take .005% fully collateralized than 2% at 50% collateralization.

Ms. Longserre said the NMSBIC should do everything necessary to stay 100% collateralized. She agreed with Mr. Cobb that the NMSBIC does not have an income stream to overcome potential losses.

Responding to suggestions from the Board, Mr. Goblet agreed to look into Bank of America, Bank of the West, Wells Fargo, Bank of Albuquerque and Ironstone Bank.

Ms. Longserre noted that there is strong public sentiment in favor of investing in small local banks, and suggested that the NMSBIC consider spreading its CDs among several banks instead of just one.

Mr. Goblet reviewed a draft spreadsheet he had prepared for FY 2009-10, and thanked Board members for their suggestions on format. He said he would update this financial forecast each month so the Board would remain current on revenues, expenses, loan losses, and other pertinent data. He said he would also present forecasts for FY 2011-12 on a quarterly basis.

Ms. Longserre proposed that the Board adopt a process for formally approving a budget each year.

Ms. Longserre additionally recommended that Board members routinely see all formal documents relating to the annual audit, and any other documents that the members should see in order to fulfill the Board's fiduciary responsibilities, in light of new IRS requirements that the Board formally accept the annual audit. She said this should include the IRS Form 990.

Ms. Longserre said she realized additional work would be involved in keeping the financial information up to date, and asked Mr. Goblet to keep the Board informed on any potential need for administrative assistance.

Board members agreed that the procedure for dealing with ACH transactions should be formalized, and asked Mr. McDonald to draft a procedural statement for review and approval.

ADVISOR'S REPORT

Mr. Goblet stated that the Contract Review Committee met via conference call in late December to discuss several final issues relating to the performance of the Financial Advisor's contract, and requested the following:

1. Greater financial details in the 2010 and 2011 budget forecast.
2. Greater economic and financial detail in the investment portfolio.
3. Creation of a policy governing public communications relative to the NMSBIC and any political stances or statements that are made by the Advisor or Board members.

Mr. McDonald stated that he would bring a draft policy forward at the February meeting.

Mr. Goblet reviewed his forecasts for interest income, operating expenses, operating income and fund management fees through 2011; deposit information; current capital commitments; and forecast capital calls.

Based on current capital commitments and the amount of capital provided by the STPF (\$47,042,781), Mr. Goblet said the NMSBIC has committed all but \$2,926,000 of its original capital, or 93.8%. He stated that, unless the NMSBIC Board considers utilizing a small multiplier, there is only a limited amount of availability for new commitments. He noted that cash in the bank should remain at approximately \$10 million through June 30, 2012.

Mr. Goblet stated that four entities—The Loan Fund, NMCC, Verge Fund II and NM Mezzanine Fund—will continue to call meaningful amounts of capital over the next few years, and the \$10 million projected cash as of June 2012 assumes no return on any of the equity funds.

Mr. Goblet stated that new lending commitments would not reduce current income because the loan portfolios generate 2.5% to 3%, and would only result in an increase in the loan loss reserve and any actual loan losses incurred. He said each \$1 million of capital deployed would call for \$60,000 in additional reserves.

Mr. Goblet said new or expanded equity relationships would result in a slow decrease in current income equal to approximately \$20,000 per each \$1 million in called capital, and would create additional management fees and expenses. He said the NMSBIC may be able to commit smaller amounts of \$500,000 to \$1,000,000 either as an add-on to existing commitments or to a Gap-like entity, as it is not in a position to commit \$3 million to \$5 million to any new fund at this time.

Mr. Goblet stated that he would begin to report quarterly on an expanded basis for each of the funds, including number of jobs, annual NM payroll, and estimate of money spent in New Mexico.

Mr. Goblet reviewed December activity for NMSBIC's lending partners and equity partners.

Mr. Goblet reviewed The Loan Fund's November 2009 Internal Compiled Financial Statements.

Mr. Goblet noted that The Loan Fund has \$4.2 million in checking/savings accounts in 26 institutions, each of which is FDIC insured up to \$250,000.

Mr. Kulka asked Mr. Goblet to have The Loan Fund provide a breakdown of those accounts along with collateralization limits on each.

Mr. Goblet stated that next month's report on The Loan Fund will reflect the flow of loans going in and out of the NMSBIC portfolio.

Mr. Cobb said he would like to see The Loan Fund's NMSBIC loan portfolio. He said he realized The Loan Fund wasn't required to provide this information, but he thought it important that the Board understand the impact of these loans on The Loan Fund's financial statement and their ability to pay the NMSBIC back.

REVIEW OF ANNUAL LETTER TO GOVERNOR/OTHERS

Board members reviewed the annual letter to the Governor, reporting on the state of the NMSBIC, and suggested minor changes.

BOARD COMMUNICATIONS

Mr. Goblet referred to a description of the Catalyst, a potential new incubator-like equity fund, and asked Board members to review it for possible discussion at the February meeting.

Chairman Baca recommended that Board members be included in all communications by email so that everyone is on the same page. He said he wanted to be sure that, if Mr. Goblet and one or two Board members are having a conversation by email, all of the Board members are aware of it.

Mr. McDonald noted that the NMSBIC Board is subject to the Open Meetings Act, so emails should focus on dissemination of information. He said Board members should refrain from discussion that is more appropriate at a meeting.

Mr. Kulka observed that Board members are using personal email addresses to communicate with each other. He stated that the SIC is discouraging that practice and recommending that staff use their state email addresses. He explained that, if someone uses their personal email account to conduct state business, all email communication from that account is subject to inspection as part of the Open Records law.


Mr. McDonald agreed to return to the next meeting with a proposed email policy and communication policy.

NEXT MEETING

Monday, Monday, February 22, 2010, NMMFA

ADJOURNMENT

Its business completed, the NMSBIC Board adjourned the meeting at approximately 12:45 p.m.



Andrew Baca, President

3/22/10

Date



Adam Levine, Secretary

3/24/10

Date