

MINUTES OF THE

NEW MEXICO SMALL BUSINESS INVESTMENT CORP.

September 25, 2020

A meeting of the New Mexico Small Business Investment Corporation was called to order on this date at 9:00 a.m. via teleconference. A quorum was established.

Members Present

Mr. Joseph H. Badal, Chair
Ms. Roxanna Meyers, Vice Chair
Mr. Steven E. Morgan, Secretary/Treasurer
Mr. Guadalupe Garcia
The Hon. Tim Eichenberg, New Mexico State Treasurer

Members Excused

Mr. Alan Fowler

Financial Adviser to Board

Mr. Russell Cummins

Board Legal Counsel

Mr. Randy McDonald

Recording Secretary

Ms. Charmaine Clair, for Judith Beatty

Guest Present

Mr. Tom Stephenson, Verge Management Managing General Partner
Mr. Todd Clarke, Board Chairman and Executive Director, Ventana Fund
Mr. Paul Cassidy, Board Member, Ventana Fund
Mr. Jake Dopson, Partner, Pulakos CPA
Mr. Ryan Thorpe, Assurance Manager, Pulakos CPA

REVIEW AND ACCEPTANCE OF AGENDA

Mr. Morgan moved acceptance of the agenda, as presented. The motion was seconded by Mr. Garcia and passed unanimously.

**PROPOSED CHANGES TO REVOLVING LINE OF CREDIT WITH VENTANA FUND:
TODD CLARKE, BOARD CHAIRMAN AND EXECUTIVE DIRECTOR**

Mr. Clarke reported that, since NMSBIC and Ventana Fund started working together less than a year ago, Ventana has expanded its loan fund substantially and recently funded 17 new loans totaling 222 units of affordable housing and \$10 million of funding for those. Ten percent of the loans, or just over \$1 million, will be used to renovate older housing stock.

Mr. Clarke said Ventana Fund has completely depleted the revolving credit line it has with NMSBIC. Ventana held a strategic planning session last month and decided they would like to further expand that capacity, and are respectfully requesting an extension of another \$5 million. If they were granted that extension, they would match it with their other funds and plan to have them fully deployed by summer 2021.

Mr. Cummins commented that the relationship with Ventana Fund has been working very well. They have drawn their full \$5.5 million that the board has approved, all reports are being filed timely and their financial condition continues to be strong.

Mr. Cummins said two modifications are being proposed for board action: 1) increasing the line of credit from \$5.5 million to \$10.5 million; and 2) making a change to the note so that a pro rata portion of any principal payments will be passed through to NMSBIC.

Mr. Garcia moved the following:

- 1) Increasing the Maximum Funding Amount for the NMSBIC's revolving line of credit to the Ventana Fund from \$5.5 million to \$10.5 million.**
- 2) Modifying the revolving line of credit to require a pro rata amount of any principal payments received by Borrower from its clients be paid to the NMSBIC as follows:**
 - For any unscheduled principal payments (i.e., prepayments) that are greater than 10 percent of the Borrower's outstanding loan amount with its client, a pro rata share of the principal payment will be paid to the NMSBIC as part of the Borrower's net scheduled quarterly settlement with NMSBIC.**
 - For scheduled principal payments, the borrower will remit a pro rate share of the principal payments to NMSBIC annually.**
 - NMSBIC's pro rata share will be the ratio of the original amount of the amount drawn from NMSBIC, divided by the original loan amount for Borrower's loan to its client.**
- 3) Authorizing Joseph Badal, NMSBIC Board Chair, to execute any and all documents related to these changes, after such documents have been prepared and reviewed by Randall McDonald and Russell Cummins.**

Mr. Eichenberg seconded the motion, which passed unanimously by roll call vote.

PULAKOS CPAS: JAKE DOPSON, PARTNER; RYAN THORPE, ASSURANCE MANAGER

- **Pulakos CPAs Audit Presentation**
- **Letter to those Charged with Governance**
- **Communication of No Material Weakness**
- **Letters to New Mexico Government Officials**

Mr. Cummins said all of the people on the Pulakos team, as well as NMSBIC contractor Dee Brescia, do an outstanding job of meeting a very tight timeline. The equity partner reports start coming in at the end of August, and the audit has to be completed before the end of September in order to meet the October 1 deadline to deliver reports to the Governor's Office and Legislative Finance Committee. He expressed his appreciation for everyone's hard work.

Mr. Dopson presented the results of the June 30, 2020 financial statement audit of NMSBIC, with the following highlights:

- This is year 2 of the presentation on the GASB basis.
- Nothing improper or fraudulent was found as part of the audit.
- There were no audit adjustments.
- No management letter was issued for June 30, 2020; a "No Material Weaknesses" letter will be issued upon request.
- Pulakos independently transmits the "No Material Weaknesses" letter and financial statements to state officials (Governor's Office, Legislative Finance Committee and State Investment Council) at NMSBIC's request.
- Pulakos received full and complete cooperation from NMSBIC representatives.
- Pulakos will be issuing an unmodified (clean) opinion on the financial statements once they are approved by the NMSBIC Board today.

NMSBIC DRAFT AUDITED FINANCIAL STATEMENTS

Ms. Myers moved to approve the draft of the Audited Financial Statements, as presented. Mr. Eichenberg seconded the motion, which passed unanimously by roll call vote.

NMSBIC DRAFT ANNUAL REPORT

Mr. Cummins highlighted changes made to this year's Annual Report:

-- Two sections have been added on actions taken by NMSBIC and its lending partners related to COVID-19 crisis.

-- Page 10 adds language regarding a recommendation to the Governor about replacing existing board members on a staggered basis.

Chairman Badal said he has indicated to the Governor's Chief of Staff that a wholesale changeover of board members could create severe problems for NMSBIC because there is so much institutional memory among the members.

Mr. Garcia moved to accept the NMSBIC Annual Report, as presented. Mr. Eichenberg seconded the motion, which passed unanimously by roll call vote.

PROPOSED CHANGE TO PRIOR APPROVAL OF PROPOSED CONSOLIDATION OF VERGE FUNDS: TOM STEPHENSON, VERGE MANAGEMENT MANAGING GENERAL PARTNER

Mr. Cummins discussed three proposed motions, which were included in the revised supplemental information sent to the board this week after the board package was sent out.

-- Motion #1: The original approval from the NMSBIC board was that, under the new combined Verge Fund, the limited partners would receive distributions equal to 1.71x their contributed capital before any profit sharing would be paid to the general partner. As prior fund balances of portfolio companies have been updated, the numbers have been changing. Tom Stephenson suggested changing the number to 1.71x or higher.

-- Motion #2: The second motion clarifies the cap on purchases. The board approved purchasing up to \$1 million in interest from limited partners, which would be \$4 million in prior fund balance times a 25% purchase price. While it was called net asset value before, now it is referred to as prior fund balance. A cap on the prior fund balance was set at \$150,000 per limited partner, to keep large investors from crowding out smaller limited partners, and making the maximum purchase price \$37,500 for any individual limited partner. The motion clarifies that the NMSBIC will purchase interests from larger limited partners, as long as all demand from smaller limited partners has been met, and subject to NMSBIC's purchase price cap of \$1 million.

-- Motion #3: It is possible that, in Verge I, the largest limited partner might not approve the combination. Were that to happen for any of the funds, as well, the fund would be dissolved and the shares would be distributed to the limited partners. This provision allows NMSBIC to contribute its shares from a distribution to the newly formed combined Verge I II Combined Fund.

Chairman Badal read motion #1:

-- **In regard to combining the five existing Verge funds into one fund, as approved by the NMSBIC Board of Directors on June 26, 2020, the provision requiring Limited Partners to receive distributions 1.71x their contributed capital before any profit sharing would be paid to the General Partner be changed to 1.71x or greater.**

Mr. Morgan so moved. Ms. Myers seconded the motion, which passed unanimously by roll call vote.

Chairman Badal read motion #2:

-- The maximum amount to be purchased from any one Verge Limited Partner shall not be greater than \$150,000 in prior fund balance, i.e., \$150,000 in prior fund balance times 25 percent purchase price to equal \$37,500 maximum purchase price for any one Verge Limited Partner, provided that additional sales above the \$150,000 cap may be accepted up to a maximum of \$4 million in prior fund balance if there is not \$4 million in prior fund balance of total initial subscriptions from Verge Limited Partners.

Mr. Eichenberg so moved. Mr. Garcia seconded the motion, which passed by roll call vote, with Ms. Myers in abstention.

Mr. Cummins read motion #3:

-- If there is not approval of a required interest of the Limited Partners of any of the Verge funds to the combination transaction (a dissolved fund) and the NMSBIC receives its pro rata share of the assets of that fund, NMSBIC approves contributing its assets into Verge I II Combined in exchange for an interest equal to the NMSBIC's individual balance in the dissolved fund.

Mr. Eichenberg moved for approval, with the revised language that "contributing its assets" be changed to read "investing its pro rata share of its assets into Verge I II Combined in exchange for an interest equal to the NMSBIC's individual balance in the dissolved fund." Mr. Garcia seconded the motion.

Mr. Stevenson said he had no objection to this change.

Mr. McDonald stated that the change was acceptable.

The motion passed unanimously by roll call vote.

ADJOURNMENT

The meeting adjourned at 10:30 a.m.



Joseph Badal, Chairman

10/20/20

Date