

**MINUTES OF THE MEETING OF THE BOARD OF DIRECTORS OF THE
NEW MEXICO SMALL BUSINESS INVESTMENT CORP.**

April 29, 2022

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
Mr. Alan Fowler, Vice President
Mr. Steven E. Morgan, Secretary/Treasurer
Ms. Heather Benavidez, designee of Hon. Tim Eichenberg, NM State Treasurer
Ms. Anne Beckett
Mr. Robert Valdiviez
Mr. Joshua Smith

Members Excused

None.

Financial Adviser to Board

Mr. Russell Cummins

Board Legal Counsel

Mr. Randy McDonald

Recording Secretary

Ms. Charmaine Clair

Guests Present

Mr. Brian Fairhurst, Managing Director, Institutional Sales, RBC Global
Ms. Mindy Frye, Institutional Portfolio Manager, Impact Strategies, RBC Global
Mr. Eric Hathaway, Senior Portfolio Manager, Fixed Income, RBC Global
Ms. Simone Sellette, Institutional Sales, Impact Strategies, RBC Global
Mr. Jake Pulakos, Pulakos CPAs

REVIEW AND ACCEPTANCE OF AGENDA

Mr. Smith moved acceptance of the agenda, as published. Mr. Morgan seconded the motion, which passed unanimously by roll call vote.

BOARD MINUTES FOR FEBRUARY 25, 2022

Mr. Morgan moved acceptance of the minutes of the February 25, 2022, meeting, as presented. Ms. Benavidez seconded the motion, which passed unanimously by roll call vote.

FINANCIAL REPORTS AS OF FEBRUARY 28, 2022 AND MARCH 31, 2022

Mr. Cummins reported that the funds in the Local Government Investment Pool increased to \$55 million. The \$44 million increase since the beginning of the year is due to the repayment of PPP loans from DreamSpring and the receipt of \$17.8 million from the Severance Tax Permanent Fund in February.

Mr. Cummins said there have been some negative market value adjustments in the SIC Core Plus Bond Pool. He has provided a 5-year history of how this investment has performed over time. He noted market value volatility is typical with this type of investment, and in general the bond market is experiencing a negative market. He feels it has been a good investment for the NMSBIC in the long term.

Mr. Cummins noted that available funds as of March 31 were \$39 million.

Mr. Morgan moved to accept the Financial Reports for February 28 and March 31, 2022, as published. Mr. Valdiviez seconded the motion, which passed unanimously by roll call vote.

EXECUTIVE DIRECTOR/INVESTMENT ADVISOR REPORT

Mr. Cummins reported that total committed funds totaled \$69.3 million as of March 31, with total assets at \$110+ million, and \$46 million in loans outstanding.

DreamSpring: Funds committed total \$9.2 million, down from a high of \$42.75 million.

NM Mortgage Finance Authority (MFA): MFA repaid its \$1 million outstanding balance, and the outstanding balance is now \$0, versus the NMSBIC's \$2.5 million commitment. George Maestas, MFA Director of Housing Development, has indicated that demand has been low for new acquisition, development, and construction loans. As short-term interest rates increase, Mr. Maestas believes the MFA Primero loan program will become more attractive relative to other sources of funding. Regarding the previous discussion about MFA rehabilitating boarded-up homes, MFA continues to express interest in pursuing that.

Ventana Fund: Ventana Fund's outstanding balance is \$8.4 million, which is 80 percent of the NMSBIC's \$10.5 million commitment. On today's agenda is a proposed increase in its maximum loan amount to \$15 million, and a proposed increase in the loan-to-value the NMSBIC will fund on properties from 50 percent to 55 percent. There are also ongoing discussions with Ventana Fund about extending the term from 5 to 7 years for loans that can be included in the NMSBIC portfolio.

New Mexico Community Capital (NMCC): Michael Schafer has resigned his position as NMCC's managing director. The new contact is Richard Schneider, who is an NMCC board member with experience in investment management. Regarding one company sold in 2018, the acquiring company has declared bankruptcy and there is little prospect of recovery of funds due to NMCC. An Initial Public Offering (IPO) plan is moving forward with a second company and NMCC anticipates the transaction might be completed before the end of 2022. The NMSBIC is carrying its investment in NMCC at \$0 based on the GASB cost method.

NEW MEXICO ECONOMIC DEVELOPMENT DEPARTMENT REQUEST FOR VENTURE CAPITAL INVESTMENT ADVISORY COMMITTEE MEMBER

Mr. Cummins said the Economic Development Department (EDD) has requested that he serve on a newly established venture capital investment advisory committee. New Mexico was allocated about \$74 million in State Small Business Credit Initiative (SSBCI) money for economic development. The \$74 million will be distributed to the state over the next ten years, and EDD will manage the funds. EDD is proposing to invest part of the SSBCI funds into venture capital equity funds, and is in the process of contracting with an investment manager. EDD would like to form an investment advisory committee to provide oversight and guidance to the investment process.

Mr. Cummins said he spoke with Chairman Badal as well as Randy McDonald about a potential conflict of interest. Mr. McDonald does not feel that Mr. Cummins' participation on the committee would present a conflict of interest, recommended that Mr. Cummins do this as an individual and not be representing the NMSBIC on the committee.

Mr. Cummins said he plans to serve to on the committee as an individual.

APPOINTMENT OF NEW NMSBIC BOARD MEMBERS - UPDATE

Mr. Cummins reported that, since the last board meeting, all three of the new members, Anne Beckett, Joshua Smith, and Robert Valdiviez, have received revised appointment letters. Mr. McDonald has reviewed the letters and sees no issues. The appointments are through the end of the next legislative session ending in March 2023. Presumably, confirmation by the Senate in the 2023 New Mexico Legislative Session will result in conversions to regular appointments serving at the pleasure of the Governor with no expiration date.

NMSBIC BANK AND INVESTMENT ACCOUNTS, APPROVED SIGNERS

Mr. Cummins stated that, currently, the authorized signers on the NMSBIC bank and investment accounts are Joseph Badal, Alan Fowler, and Steven Morgan. Given that two signatures are required, it would be prudent to add additional authorized signers in case people are traveling or are not available.

Ms. Beckett moved that:

- **The NMSBIC board of directors approve the following persons as authorized signers on the NMSBIC bank accounts, investment accounts, and safekeeping/custodial accounts, with two signatures required:**

**Joseph Badal
Alan Fowler
Steven Morgan
Joshua Smith
Robert Valdiviez**

- **The changing of signature cards be authorized to reflect the new authorized signers, and that current signers will continue to be authorized to sign until such time as new signature cards are completed.**

Ms. Benavidez seconded the motion, which passed unanimously by roll call vote.

NMSBIC BOARD MEETING SCHEDULE FOR 2022

Mr. Cummins said that, due to scheduling conflicts for board members, the following changes are proposed:

1. Move from June 24, 2022, to Monday, June 20, 2022, 9 am to 12 noon.
2. Move from August 26, 2022, to Monday, August 15, 2022, 2 pm to 4 pm (in person, subject to New Mexico COVID rules in place at the time)
3. Add a Board of Directors dinner: Monday, August 15, 2022, 6 pm to 8 pm (board members and Spouses, subject to New Mexico COVID rules in place at the time)

Mr. Valdiviez moved approval of these proposed changes. Mr. Smith seconded the motion, which passed unanimously by roll call vote.

NEW MEXICO COMMUNITY DEVELOPMENT LOAN FUND (THE LOAN FUND), PROPOSED EXTENSION OF NMSBIC COVID-19 LENDING PROGRAM LOAN

Mr. Cummins stated that the NMSBIC's COVID-19 Lending Program, which had been extended for a year for The Loan Fund, ended on February 28, 2022. He is recommending an additional six-month extension.

Mr. Cummins noted that The Loan Fund has nine COVID-19 loans that either closed after February 28 or are in its loan pipeline. The Loan Fund was aware of the February 28 end-date, but continued to originate these loans with the expectation and understanding that it would be paying a higher rate to the NMSBIC. They The Loan Fund indicates there has been demand and continued need for this assistance program.

Mr. Smith said he thought the request for a six-month extension was reasonable in transitioning The Loan Fund from a trend of artificially low interest rates. He said he was concerned about the financial industry "kind of being drunk on so much liquidity and free money out there," and didn't want to see the NMSBIC support too much of that.

Ms. Benavidez moved that the NMSBIC board of directors:

- **Approve a modification to extend the date that the New Mexico Community Development Loan Fund can include NMSBIC COVID-19 Lending Program loans in the NMSBIC portfolio to August 31, 2022; and that**
- **Joseph Badal or Alan Fowler be authorized to sign any and all documents related to the modification, subject to review and approval of documents by the NMSBIC's legal counsel and the executive director/investment advisor.**

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

VENTANA FUND, PROPOSED CHANGES TO LINE OF CREDIT POSSIBLE

Mr. Cummins reported that he recently met with Ventana Fund board member Paul Cassidy and board chairman Todd Clarke, who have projected that they can deploy up to \$15 million in NMSBIC loans between now and the end of the year. Based on projected demand, they are requesting an increase in Ventana Fund's maximum loan amount from \$10.5 million to \$15.0 million.

Mr. Cummins additionally asked the board to consider:

- An increase in the loan-to-value (LTV) that the NMSBIC will fund based on the lower-of-cost (renovated cost if applicable) or appraised value (as improved appraised value if applicable) from 50 percent of the value of a property to 55 percent.
- There are also ongoing discussions with Ventana Fund regarding a possible extension of from 5 years to 7 years that loans can be used as collateral in the NMSBIC portfolio, with interest rate protection for the NMSBIC in years 6-7 if interest rates increase substantially.

Mr. Cummins stated that the NMSBIC has been operating with Ventana Fund for several years, and it has seen good turnover of the loans in their portfolio. The relationship has been good, and the loan quality is good, with no delinquencies.

Mr. Smith disclosed that he is on the board of the Veterans Integration Center, which is going through Ventana Fund to help build 42 housing units for homeless veterans. It is not a paid position, however, so there is no financial conflict.

Mr. Fowler moved that the NMSBIC board of directors approve:

- **That Ventana Funds maximum loan amount be increased from \$10.5 million to \$15.0 million; and**
- **That the loan-to-value (LTV) the NMSBIC will fund, based on the lower-of cost or appraised value, be increased from 50 percent LTV to 55 percent LTV; and**
- **That Joseph Badal or Alan Fowler be authorized to sign any and all documents related to the transaction.**

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

RBC GLOBAL ASSET MANAGEMENT, PROPOSED IMPACT FUND INVESTMENT:

-- BRIAN FAIRHURST, MANAGING DIRECTOR, INSTITUTIONAL SALES

--ERIC HATHAWAY, SENIOR PORTFOLIO MANAGER, FIXED INCOME

-- MINDY FRYE, INSTITUTIONAL PORTFOLIO MANAGER, IMPACT STRATEGIES

--SIMONE SELLETTE, INSTITUTIONAL SALES, IMPACT STRATEGIES

Mr. Cummins noted that this item was tabled at the last meeting pending a written legal opinion from counsel Randy McDonald in terms of whether RBC would be considered a cooperative partner, and that the investment in these SBA pools could be considered part of the NMSBIC's allowed debt investments as defined by the NMSBIC's legislation.

Mr. Cummins said Mr. McDonald's legal opinion was emailed to board members earlier this week.

Mr. Cummins said RBC is proposing the NMSBIC make a \$25 million commitment to an RBC Access Capital Impact Fund. NMSBIC funds will be invested in pools of newly originated SBA 7(a) loans to borrowers that meet the definition of a New Mexico Business.

Mr. Cummins said the advantages are:

- 100 percent SBA guaranteed
- Variable rate adjusted quarterly
- New SBA loans in New Mexico targeted on minority- and women-owned businesses
- Investment is liquid; however, premiums paid on the investment might not be fully recovered if sold in the first few years.

Mr. Cummins said the risks are:

- Prepayment risk related to the premium paid on SBA pools.

Mr. Cummins said the proposed funding and investment are as follows:

- The NMSBIC would transfer \$25 million into a bank custodial account, with a bank such as Wells Fargo.
- RBC, acting as the NMSBIC's investment manager, would have a limited power of attorney to manage assets in the NMSBIC's custodial account in accordance with an Investment Management Agreement, Impact Guidelines, and Investment Policy Statement.
- RBC would initially invest the \$25 million in U.S. Treasury Bills with staggered maturities between one and twelve months (a "Treasury Ladder"). Given the extended maturity (up to twelve months) of a Treasury Ladder as compared to shorter-term maturities in the NMSBIC's Local Government Investment Pool (LGIP) investment, it appears the Treasury Ladder would likely provide a slightly better yield as compared to the NMSBIC's LGIP investment, even after the RBC management fee.
- As SBA pools are originated, RBC will transition funds in the bank custodial account from U.S. Treasuries into SBA pools.
- RBC's management fee is 0.40 percent, with a declining fee percentage on investments greater than \$25 million.

Mr. Fairhurst said they plan to work with as many SBA 7(a) originators as they can within the state and will try to build out a deeper local network.

Mr. Hathaway added that there are a handful of originators that they work with, as the SBA approves lenders onto their platform. At this point there are 12-15 of them, and some of the larger ones that they regularly see are names like Signature Securities, Raymond James, and some of the larger banks like Wells Fargo.

Mr. Cummins stated that about \$219 million has been originated in SBA loans in New Mexico within the last year. He shared an SBA report on 7(a) loans for a one-year period from October 2020 through September 30, 2021.

Responding to Chairman Badal on whether RBC intends to look beyond its own existing relationships, Mr. Fairhurst said RBC has a deep existing relationship network that they are going to tap into to find scale, but they also have had a history of local regional-based initiatives that open up doors to create new relationships for lenders. There is a two-way dialogue in helping them understand the benefits they can tap into by selling in the secondary market through RBC on behalf of its clients. They will open up new relationships as part of this partnership going forward.

Chairman Badal asked if they have any kind of feeling about how many loans would be originated by CDFIs and how many would be coming from the banking community. Mr. Hathaway responded that the majority would be from the banking community, and he thought CDFIs would be in the 10-15 percent range.

Chairman Badal noted that, the last time he looked, New Mexico banks were awash in liquidity, and having a tough time putting deposits out in the form of loans. He questioned why they would sell any loan, including SBA's 7(a) loans, into a pool. He asked what the advantage of doing that is to a local bank.

Mr. Hathaway agreed that, when there is a lot of liquidity, it doesn't make much sense to take a loan off the balance sheet, and that's one of the issues RBC sees. Not all of the origination volume translates through to the securitization process. This is frustrating for RBC, and it's the bank's decision to make.

Chairman Badal asked what happens if RBC isn't able to deploy any of the \$25 million a year from now.

Mr. Fairhurst responded that banks often outsource their "headache areas" to RBC, which has a long track record of difficult-to-source loans, and a near-term history of successfully sourcing portfolios of \$25 million to \$50 million when there is a very narrow geographic footprint and a high desire to have a preponderance of CDFI-originated loans. The NMSBIC will be in close contact with RBC, and Mindy Frye will be providing monthly updates on deal flow.

Ms. Frye shared slides showing a snapshot of a transitional portfolio. She stated that, in the first several months until they are fully allocated, she will be communicating frequently with NMSBIC. If RBC sees that it's more difficult than what they anticipated three to six months in, they won't wait a year to discuss this with the NMSBIC.

Mr. Fairhurst said banks and CDFIs are relatively flush with capital right now, but with rates moving up, it will be relatively expensive to source capital 12 months from now. He thought there was also a reasonable expectation that businesses that survived, maybe with some PPP loans, will need to recapitalize. As rates go up, so will the cost of capital, and it is likely there will be more incentive for banks and other SBA originators to sell into the secondary market than there has been over the last 18-36 months.

Mr. Cummins said that, based on the \$219 million in SBA 7(a) loans in New Mexico over a year's time, and assuming that it takes two years for RBC to get to 90 percent allocation in SBA loans, or \$22 million, that means they would need to originate about \$11 million a year. That is about 5 percent market share out of the \$219 million in total production. Even if 95 percent of the banks and CDFIs keep their loans in the portfolio, RBC can meet their goal if they source 5 percent of the production.

Chairman Badal said the question is, if that doesn't happen, do the funds revert back to the NMSBIC. Mr. Fairhurst responded that the NMSBIC can terminate at any point without requiring liquidation of the underlying loans sourced up to that point, and will own the loans in whole.

Ms. Beckett asked if the reference to export capital or international trade was about the U.S. trade with Mexico. She wondered if there was anything the NMSBIC could do for southern New Mexico in particular because of its relationship to the Mexico border. She also wondered whether undocumented companies with undocumented principals were eligible to participate in the SBA 7(a) program.

Mr. Hathaway commented that this could be in another area of government sponsorship, as RBC doesn't typically see those loans. He said he couldn't answer whether documentation status was a barrier to getting a 7(a) loan.

Mr. Cummins noted that the SBA website notes that the vast majority of loans originated under 7(a) are standard 7(a) or SBA Express, where they've delegated underwriting authority. From SBA's website, it sounds like there is very little volume in those other loan programs. He also stated that, in looking at the SBA's underwriting guidelines on their website, it appears that an undocumented person would not meet SBA's underwriting requirements.

Ms. Beckett suggested that, even if people aren't doing it now, it might be possible for RBC to support people doing international business in southern New Mexico in areas such as Santa Teresa.

Mr. Fairhurst responded that RBC is going to try to source loans as broadly across the geographic dispersion across the state as much as possible.

Ms. Frye noted that RBC has had a long-term Minnesota-based foundation client, and part of their mission is to help indigenous people, and they have relationships in New Mexico with organizations that do that. RBC is in talks with them to fund a separate account where RBC could source loans to indigenous entrepreneurs. RBC has a number of clients who have a similar interest or aligned interest, and that is another avenue RBC can look at for indigenous-based loans.

Mr. Fairhurst commented that this asset owner is open to risk-share loans versus the NMSBIC's investment in 100% SBA guaranteed loans. That could potentially result a scalable synergy with the NMSBIC in terms of getting more stakeholders to the table to find ways to match up needs for capital with sources for capital.

Mr. Smith moved the NMSBIC board of directors:

- **Approve a \$25 million investment in an RBC Global Asset Management (RBC) Separately Managed Account, where RBC will manage funds in the NMSBIC's custodial account, including cash and U.S. Treasury Bills, other investments approved by the NMSBIC Investment Policy, and SBA pools focused on economically targeted investments in New Mexico; and**
- **Authorize Joseph Badal or Alan Fowler to sign any and all documents related to an RBC Separately Managed Account, including but not limited to an Investment Advisory Agreement, Impact Guidelines, Investment Policy Statement, and Limited Power of Attorney, subject to review and approval of the documents by the NMSBIC's legal counsel and executive director/investment advisor;**

- **Approve opening a custodial account with a federally chartered bank to hold cash, U.S. Treasury Bills, other investments approved by the NMSBIC's investment policy, and SBA pools focused on economically targeted investments in New Mexico, in connection with an RBC Separately Managed Account; and**
- **Authorize Joseph Badal or Alan Fowler to sign any and all documents related to opening a bank custodial account, subject to review and approval of the documents by the NMSBIC's legal counsel and executive director/investment advisor.**

Ms. Beckett seconded the motion, which passed unanimously by roll call vote.

NMSBIC DIRECT INVESTMENTS, EXPANDED SERVICES ACCOUNT

Mr. Cummins said the Professional Service Contract with him was modified in 2020 to include Expanded Services, which are direct investments that the NMSBIC might acquire when a venture capital equity fund reaches the end of its life and still has active investments. He said there are two investments currently on the books where this has happened, both of which are convertible notes.

Mr. Cummins said the board asked him to track the amount of time he was spending on these investments. He has included a report of activity during the past twelve months and noted that the total time spent on Expanded Services during that period was 27.25 hours. In addition, Chairman Badal asked him to provide additional accomplishments over the past year, which he has included.

[Mr. Cummins stepped away from the meeting.]

Chairman Badal stated that Mr. Cummins was given a bonus of \$25,000 last year.

Board members agreed that Mr. Cummins should be paid a bonus at a similar level this year.

Mr. McDonald stated that he did a comparison last year with other nonprofit organizations' executive directors in the Albuquerque area. The NMSBIC was paying Mr. Cummins below most other executive directors, and most of those organizations were not financial organizations, which traditionally have higher payouts than other charities.

Mr. Smith noted that net income from operations is \$130,000 above budget. Given the moves the NMSBIC has made relative to RBC and adding two CDFIs will only improve that because of the deployment of capital, which supports a higher bonus amount.

The consensus of the board was to give Mr. Cummins a bonus of \$30,000.

Mr. Valdiviez moved to give Mr. Cummins a bonus of \$30,000. Mr. Morgan seconded the motion, which passed unanimously by voice vote.

[Mr. Morgan left the meeting.]

**PULAKOS CPAS, 2022 AUDIT AND TAX ENGAGEMENT LETTER: JAKE DOPSON, PARTNER,
PULAKOS CPAS**

Mr. Cummins referred to a proposed Engagement Letter from Pulakos CPAs for external audit and tax preparation services for the fiscal year ended June 30, 2022. The proposal includes a small increase in the total audit and tax fees to \$30,450. They were \$29,150 last year.

Mr. Cummins stated there was discussion on two issues seven years ago.

Mr. Cummins said the first issue was whether the NMSBIC should rotate its audit firm every seven years. While that is a requirement for state agencies, the NMSBIC is not a state agency and is not required to rotate audit firms. He interviewed Wayne Brown, former managing partner at Moss Adams, who pointed out that the American Institute of Certified Public Accountants (AICPA) does not recommend a mandatory rotation of audit firms. Mr. Brown noted that the rotation of audit firms in New Mexico did not appear to be related to a best practice or to improve internal controls, but because CPA firms in New Mexico wanted increased opportunities to bid on state business. Mr. Brown also said most states do not require audit firm rotation. Mr. Cummins said the NMSBIC board decided not to require audit firm rotation.

Mr. Cummins said the second issue was whether or not the NMSBIC should require a rotation of the audit partner. This is not a state requirement, but is required of public companies every seven years. The NMSBIC rotated audit partners seven years ago, replacing Brad Steward with Jake Pulakos. Mr. Cummins said the board indicated then that it would consider rotating audit partners in seven years.

Mr. Cummins said that the AICPA pointed out that rotation negatively impacts audit quality, with the majority of audit failures occurring in the first two years with a new auditor. Also, rotation of audit firms increases the cost of an audit, and it doesn't necessarily improve quality.

Mr. Cummins said it is important to note that the quality of service the NMSBIC receives from Pulakos CPAs has been excellent. The NMSBIC has a very tight turnaround time for its external audit. Equity partner reports are received on August 31 each year, which provides about 30 days to complete the audit, obtain NMSBIC board approval, and finalize audit reports by the October 1 reporting deadline for the Governor and the Legislative Finance Committee. This requires advance planning and very active communication among Pulakos CPAs, Dee Brescia, and him.

Mr. Cummins said that, based on the very high quality of service and a team that does outstanding work, he would recommend approving the Engagement Letter and to retain Jake Dopson as the audit partner.

Mr. Valdiviez moved:

- **That the NMSBIC board of directors approve the Pulakos CPAs 2022 Audit and Tax Engagement Letter, and**
- **That Jake Dopson be retained as the NMSBIC's audit partner, and**
- **That Steve Morgan, NMSBIC Secretary/Treasurer, be authorized to sign the Pulakos CPAs 2022 Audit and Tax Engagement Letter.**

Mr. Fowler seconded the motion, which passed unanimously by voice vote.

BOARD CONTINUING EDUCATION, ATTORNEY GENERAL CORRESPONDENCE 2001-2007

[Tabled to next meeting.]

CHAIRMAN'S COMMENTS

Chairman Badal thanked everyone and welcomed new board members. He also thanked Mr. McDonald for all of his work this month.

ADJOURNMENT: 11:20 p.m.



Joseph Badal, Chairman

6/20/22
Date