

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

April 28, 2023

A meeting of the New Mexico Small Business Investment Corporation was called to order on this date at 9:00 a.m. at WESST Enterprise Center, 609 Broadway Blvd NE, Albuquerque, NM 87102. A quorum was established.

Members Present

Mr. Joseph H. Badal, Chair

Mr. Steven E. Morgan, Secretary/Treasurer

Ms. Anne Beckett [via Zoom]

Mr. John Kreienkamp, designee of Hon. Laura Montoya, NM State Treasurer

Mr. Joshua Smith

Members Excused

Mr. Alan Fowler, Vice President

Mr. Robert Valdiviez

Financial Adviser to Board

Mr. Russell Cummins

Board Legal Counsel

Unable to Attend

Recording Secretary

Ms. Charmaine Clair

Guests Present

Mr. Chad Cooper, One Hope Financial Institution

Mr. Ken Carson, Board Chairman, One Hope Financial Institution

Ms. Raquel Romero, One Hope Financial Institution

Mr. Marshall Shore, Nusenda Credit Union

Via Zoom:

Ms. Kristina Alley, Santa Fe Advisors, LLC

Ms. Karla Moreno, Avivar Capital [advisor to NMMIC, to attend OHFI presentation]

Mr. Jake Dopson, Pulakos CPAs

Ms. Jenifer Raphael Getz, New Mexico Commission on the Status of Women

REVIEW AND ACCEPTANCE OF AGENDA

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

BOARD MINUTES FOR FEBRUARY 24, 2023

Mr. Smith stated that, in his presentation at the last meeting, the mortgage rate for single-family homes was 7 percent and not 7.4 percent, as reflected. Mr. Kreienkamp noted the agenda indicates approval of the December 7, 2022, minutes. Mr. Cummins responded that was an error, and should reflect approval of the February 24, 2023, minutes.

Mr. Morgan moved acceptance of the February 24, 2023, minutes with the corrections noted above. Mr. Smith seconded the motion, which passed unanimously.

ONE HOPE FINANCIAL INSTITUTION, PRESENTATION OF LENDING PROGRAM BUSINESS PLAN

Mr. Chad Cooper, CEO of One Hope Financial Institution (OHFI), introduced Ken Carson, board chair, and Raquel Romero, loan officer.

Mr. Cooper stated that OHFI is based in Albuquerque and is focused on character-based lending. Their mission is to strengthen small businesses in communities of color. Their vision centers around equity and the best outcomes for business owners throughout the state focusing on the rich culture and heritage in the state. They provide access not just to capital, but also to resources and education.

- Historically, minority-owned businesses are denied loans at 50 percent more than White-owned businesses and at significantly higher rates. This prevents them from reinvesting those monies in their own businesses. In New Mexico, 7.8 percent of businesses are owned by a racial minority. OHFI's focus is to serve all areas of the state.
- Their mission is to provide loans, equity investments, technical assistance, and business consulting to underestimated entrepreneurs who have been historically excluded from traditional lending and bank services. OHFI will focus on lending to small businesses in New Mexico owned by Black, Indigenous, and People of Color (BIPOC).
- OHFI has partnered with GrowthWheel as an interactive tool which can assist business owners in identifying strengths and weaknesses and gives OHFI the ability to track a business's progress. It has also partnered with the UNM Anderson School of Management, which will provide interns to work with the tools and clients.
- OHFI will begin taking applications in May and issue loans about June or July. Its leadership has over 70 combined years of lending experience.

- The WK Kellogg Foundation has provided a \$1.5 million grant to OHFI for start-up working capital. The City of Albuquerque has provided a \$150,000 grant to be used as lending capital for loans to BIPOC-owned small businesses in Albuquerque. NUSENDA has allocated \$100,000 of Co-Op Capital loans to OHFI for loans up to \$10,000, where OHFI will sponsor and provide technical assistance to business owners and will be responsible for up to 10 percent of any loan losses (up to \$10,000 total in loan losses).

Mr. Smith asked what motivated the start-up as a new lender versus piggybacking with another organization such as WESST Corp. Mr. Carson replied he is on the WESST board and their loan committee. The intention is to be another option for capital access. He anticipates that OHFI's approach will be a little different from WESST, but they will find a niche that works for them.

Mr. Cummins noted that different CDFIs have different streams of referral sources, and it sounds like this could provide an opportunity to tap into a new source of loan referrals.

Ms. Romero added that there is a lack of continuing technical assistance throughout the life of the loan. OHFI's goal is to provide that technical assistance from the beginning to the end.

Mr. Morgan asked how to get a certification as a GrowthWheel business advisor. Ms. Moreno responded that there is a three full day online course and once certified, advisors continue to receive certification through an annual course. Mr. Morgan commented that he sees that as valuable in rural locations.

Ms. Beckett said she read about raising additional funds, and asked how they maintain liquidity in the early days before SBA approval. She asked if there is a market for these loans in terms of being able to package and sell them in terms of having future liquidity.

Mr. Carson responded that \$1 million from the Kellogg Foundation is dedicated to operations, which will carry them for two years. The plan is to raise additional capital through more grants. They will need to build income and have recurring income for operations, and they hope the loan program continues to grow.

Mr. Cooper said they have discussed a second grant from the WK Kellogg Foundation in November, which if received, will add to liquidity.

Chair Badal asked if the WK Kellogg Foundation grant allows funding to be used for lending, or only operations. Mr. Cooper responded the grant is for operations, but they are discussing with Kellogg the ability to use of some of the grant funds for lending.

Chair Badal said he was very impressed with their underwriting program, but the 570 FICO score appears low.

Chair Badal asked how they will manage a loan portfolio and counsel borrowers at the same time. Mr. Carson responded that they will be leveraging the student business interns. Part of the technical assistance will be education videos, and they would direct business owners to a video.

Chair Badal expressed concern about the counseling. Based on the NMSBIC's experience with other relationships, he didn't think giving people access to computer programs or putting them online would work, and in-person counseling would take a lot of handholding and a lot of time and effort. He urged caution about taking on too much and suggested that starting out in a manageable fashion would be a smart approach. He said he would encourage OHFI to initially concentrate on Albuquerque.

Chair Badal also pointed out that, almost exclusively, the NMSBIC's loans to CDFIs are secured. He would recommend to the NMSBIC board that any kind of funding be only for secured loans.

Regarding technical assistance, Mr. Cummins stated that the average CDFI covers about two thirds of their operating costs through interest on fees and loans, and they rely on grants and contributions for the other third. From what he is hearing, OHFI may need more grants and contributions to cover the cost of its more extensive upfront and ongoing technical assistance.

Mr. Cooper responded that this will be true especially in the early years. They would like a line of credit from \$1 million to \$5 million from the NMSBIC and to discuss how to secure that in order to lend to small businesses in need. Their loan origination projection over the first two years is about \$1.7 million. They currently have \$150,000 available for lending from the City of Albuquerque, and another \$100,000 from Nusenda, of which \$10,000 will be reserved, for a total of \$240,000. They anticipate exhausting their current funding for loans sometime in the fall.

Chairman Badal said the board would like to see some performance, and suggested OHFI return to the August NMSBIC board meeting with an update.

Ms. Beckett agreed that OHFI should start small, but at some point, get in touch with the Rural Development Corporation when they start thinking about loans in rural areas.

FINANCIAL REPORTS AS OF FEBRUARY 28, 2023, AND MARCH 31, 2023

Mr. Cummins stated that the loan portfolio has grown and is now at \$69 million. Short-term interest rates have been significantly higher than budgeted, providing more interest on short-term investments. Available funds are \$8.2 million which could be committed.

Mr. Kreienkamp moved to accept the February 28, 2023, and March 31, 2023, financial reports as presented. Mr. Morgan seconded the motion, which passed unanimously.

**PROPOSED EXTERNAL AUDIT AND TAX PREPARATION ENGAGEMENT LETTER:
JAKE DOPSON, ASSURANCE PARTNER/SHAREHOLDER, PULAKOS CPAS**

Mr. Cummins said his recommendation is to renew with Pulakos CPA for both the external audit and tax preparation. He noted NMSBIC's short turnaround time of about 30 days from when it receives equity partner reports, to when audited financial statements are due to the Legislative Finance Committee and the Governor's Office. He commented that Pulakos does an outstanding job of completing the audit within this tight time period.

Responding to Mr. Kreienkamp, Mr. Dopson said Pulakos has been contracting with the NMSBIC for 12-13 years, but they ensure that different team members work on the account, so they are not working with the same people year-over-year.

Mr. Smith moved that:

- **The NMSBIC board of directors approve the Pulakos CPAs 2023 Audit and Tax Engagement letter, and**
- **Steve Morgan, NMSBIC Secretary/Treasurer, be authorized to sign the Pulakos CPAs 2023 Audit and Tax Engagement Letter.**

Mr. Kreienkamp seconded the motion, which passed unanimously.

EXECUTIVE DIRECTOR/INVESTMENT ADVISOR REPORT

- Total funds committed are \$112.5 million, with a total of \$69 million in outstanding loans.
- The NMSBIC recently increased the Clearinghouse CDFI (CCDFI) line of credit from \$10 million to \$15 million. Shortly after the modification was completed, CCDFI pledged a \$6.8 million loan and drew the additional \$5 million, so they are up to \$15 million outstanding. At their annual meeting, CCDFI recognized the NMSBIC as their top new funding partner. CCDFI has been added to Finance New Mexico.
- DreamSpring is working on getting the final PPP loans paid off.
- Homewise has named Daniel Slavin as its new Chief Financial Officer.
- The Loan Fund. The NMSBIC increased the leverage ratio for the Loan Fund to 24:1 at the beginning of the pandemic, to make additional loan funding available during the pandemic. The NMSBIC's typical leverage ratio for lending partners is 10:1. Mr. Cummins is continuing to monitor the ratio. As of 12/31/2022 (based on unaudited financial statements), The Loan Fund's leverage ratio had gone up to 22.5:1. The Loan Fund

received \$665,000 in CDFI grant funding from the US Treasury in April that reduced the ratio to about 16:1. Mr. Cummins is having discussions with The Loan Fund about how additional grant funding and contributions might be generated to support continued growth of the NMSBIC's lending program with The Loan Fund. Chairman Badal asked Mr. Cummins to provide details regarding loans rewritten and repurchased, and that information was provided in the board package.

- Ventana Fund has a new executive director. It received two CDFI grants from the US Treasury: a \$560,000 Financial Assistance grant, and a \$2.6 million Equitable Recovery Program grant. It plans to request an increase in funding from the NMSBIC at the June meeting.
- New Mexico Community Capital is getting closer to an exit on one of NMSBIC's remaining equity investments. NMCC's one remaining company has combined with other companies and is pursuing a public offering. Assuming a public offering is completed, there would be a 6-12 month lockout period before the investment could be liquidated. NMCC is valued at \$2.88 million and the NMSBIC's 47.78% ownership is valued at \$1.17 million. If a public offering is completed in September this year, the NMSBIC might receive funds in September 2024.

Mr. Smith wondered if there is a mechanism for the NMSBIC to open up to more micro-lending with unused funds.

Mr. Cummins responded that he spoke with DreamSpring, which under its agreements with NMSBIC is subject to a \$7.75 million maximum lending amount versus \$3.4 million in outstanding loans. For the past three years, DreamSpring stopped doing smaller loans partly because of the pandemic and also because of the New Mexico Small Loan Act, which does not allow it to charge an origination fee on loans less than \$10,000. This requires DreamSpring to subsidize small loans to a greater extent with grants and contributions. They also need to finish doing a software upgrade to make sure they are complying with the Small Loan Act. He said they do plan to increase the number of loans less than \$10,000 over the next 12 months, and will provide the grant funding and contributions needed to subsidize the small loans. DreamSpring would like to retain the full \$7.75 million in funding and is planning to deploy the funds.

Mr. Cummins said he also spoke with LiftFund about unused funds. LiftFund noted that they were focused on existing customers during the pandemic. It also has a federal grant that they were previously only allowed to use in three New Mexico counties. They worked with the federal agency to expand the grant funds into 30 counties and now think they can deploy the entire \$1 million in the next year.

Mr. Cummins said RCAC indicated it would be able to draw the entire \$1 million in unused funds from NMSBIC by pledging existing loans in their portfolio, and just needs to identify which loans and confirm eligibility for the NMSBIC's lending program. He said RCAC only works with rural customers.

Ms. Beckett wondered if the NMSBIC could offer support to its lending partners to modify the New Mexico Small Loan Act, or if the NMSBIC could approach a legislator.

Ms. Beckett also asked if there is an investment profile for charter schools.

Mr. Cummins responded that, with respect to potentially changing the Small Loan Act, he spoke with Anne Haines at DreamSpring about it. The Act exempts banks and credit unions because they have a different supervisory authority, but CDFIs do not. For that reason, Ms. Haines feels it would be an uphill battle to amend the Act.

Chairman Badal said the NMSBIC would have to get all CDFIs together and have them agree to fund a lobbyist effort. They would need to get one or more sponsors before the next legislative session. The NMSBIC could testify, which would carry some weight. He said the point is that if there is no incentive to make a loan under \$10,000, the NMSBIC would be undermining the whole essence of the Act. He suggested Mr. Cummins talk to the CDFIs and tell them the NMSBIC is prepared to help.

Mr. Cummins said he discussed this with Ms. Haines, who said DreamSpring's status as a 501(c)(3) organization nonprofit prohibits them from spending any money on a lobbyist.

Chairman Badal asked Mr. Cummins to check with Randy McDonald to see if the NMSBIC would have any restrictions on funding a lobbyist.

Responding to Ms. Beckett's question regarding charter schools, Mr. Cummins said the NMSBIC will be funding charter school construction loans, and the lending partners will likely provide numbers for construction jobs on those projects. He is not aware of them providing anything about the general economic impact of charter schools.

[Break.]

LEGISLATIVE UPDATE, SENATE BILL 26

Mr. Cummins reported that Senate Bill 26 was passed at the 2023 legislature, which changed the funding formula for the Severance Tax Permanent Fund (STPF). The state is forecasting that, even though fossil fuels might be phased out over time, royalties from oil and gas are expected to increase over the next 10-12 years and then begin to decline. With the change in the funding formula, the projection in the Fiscal Impact Report for Senate Bill 26 reflects that the balance in the STPF might reach \$30 billion by 2035. A rough estimate is that NMSBIC's assets might grow from \$122 million this year to about \$600 million by 2035.

Mr. Cummins said he, Chair Badal and Mr. McDonald plan to meet to discuss structural changes that might be necessary such as hiring employees or bringing in additional contractors.

Chairman Badal said they want to be proactive by having a plan to manage a larger portfolio. He asked board members with any questions to email him or Mr. Cummins before the meeting.

DIRECTORS AND OFFICERS INSURANCE POLICY RENEWAL

Mr. Cummins stated that prices have been increasing a little bit each year, and assets are growing, which is part of the price calculation. Last year's premium was \$4,663. The policy expires before the next meeting date, so approval is needed.

Mr. Smith moved the NMSBIC board of directors approve the renewal of the Directors and Officers insurance policy as of June 23, 2023, for a period of one year, so long as the annual premium is less than \$5,500. Mr. Morgan seconded the motion, which passed unanimously.

NMSBIC BANK ACCOUNTS, REVIEW OF FDIC INSURANCE AND COLLATERAL

Mr. Cummins stated that, given the current banking environment related to recent bank failures of Silicon Valley Bank and Signature Bank, he reviewed FDIC deposit insurance coverage and collateral for the NMSBIC's bank accounts at First National 1870. He talked with Chairman Badal on options such as moving to one of the top five banks such as JP Morgan Chase or Wells Fargo, and also looked at options such as instant cash sweeps (ICS) into federal money market mutual funds.

Mr. Cummins said the NMSBIC's legal counsel and Treasurer Montoya confirmed that ICS is not an acceptable deposit account for the NMSBIC because participating banks would not necessarily have branches in New Mexico and be registered with the New Mexico State Treasurer's Office. While sweeps into federal money market mutual funds are allowed, they have typically have higher fund management fees, and in addition, the bank charges an additional fee. The NMSBIC would earn more on the Local Government Investment Pool (LGIP) with a current yield of about 4.5 percent, versus a bank sweep into a money market mutual fund, with a current yield of about 4 percent. In addition, sweeps happen at the end-of-day, and money deposited in the morning would be uninsured until swept that evening. Also, Treasurer Montoya noted that the State of New Mexico, and some large counties, which are required to have deposits collateralized, are using short-term letters of credit to collateralize large in/out transactions.

Mr. Cummins stated that he did not believe moving the NMSBIC's bank accounts from First National 1870 would be necessary. The NMSBIC's deposit accounts at First National 1870 have \$250,000 in FDIC deposit insurance, plus about \$750,000 in

collateral comprised of US Government Securities. It also appears the NMSBIC's LGIP investment with the State Treasurer's Office provides a better yield than bank money market accounts or bank federal money market fund sweep accounts. The combination of First National Bank accounts, and moving funds to/from the LGIP account, has been working well.

Mr. Cummins said the only change he would recommend is to obtain short-term letters of credit from First National 1870 for in/out transactions that exceed the level of FDIC insurance and collateral, and this change has been implemented.

NMSBIC BOARD MEETING QUORUM RULES

Mr. Cummins stated that, in follow up to a question from Treasurer Montoya, Mr. McDonald clarified that, if a meeting starts with a quorum and some members drop off, the remaining board members can continue to vote on items at the meeting as long as the meeting began with a quorum.

Mr. Kreienkamp said he and Treasurer Montoya appreciate the clarification.

RBC GAM SHORT TERM INVESTMENTS

Mr. Cummins stated that the NMSBIC had committed \$25 million to the RBC GAM Impact Fund, which was initially invested in a federal money market fund. RBC then allocated part of the funding to a Treasury ladder. In the current interest rate environment, there is no benefit to extending out on the yield curve. RBC has not been adding loans to the ladder, and rather is investing funds in the federal money market mutual fund. The ultimate goal is to transition the funds into pools of SBA loans focused on BIPOC businesses in New Mexico.

Mr. Cummins said the NMSBIC board did not specify a federal money market fund for RBC. Available federal money market funds were limited to funds with daily sweeps offered by Wells Fargo. Mr. Cummins reviewed prospectuses and selected the Invesco Govt Fund CAVU 7533 because it had the lowest management fee, which was 18 basis points for a \$1,000 minimum balance.

RDC ADVISORS LLC, PROPOSED RENEWAL OF PROFESSIONAL SERVICES CONTRACT

Mr. Cummins said Chairman Badal has suggested changing the three-year term to five years with the provision that either party can terminate with any reason with 180 days' notice and an annual review of compensation related to possible NMSBIC asset growth.

Mr. Cummins said Randy McDonald provided an updated compensation comparison (page 111). Mr. Cummins said he provided a rough estimate of differences in

compensation for contractors and employees. His proposed compensation does not include an annual bonus.

Mr. Cummins left the room.

Chair Badal suggested a five-year term because of the SIC Severance Tax Permanent Fund increase that is expected and what its effect will be on the NMSBIC. Also, he suggested 180 days' notice because it wouldn't be possible to replace Mr. Cummins in 90 days.

Chairman Badal said Mr. Cummins has proposed a 5 percent increase each year starting in July. NMSBIC does not pay benefits.

Chairman Badal said the last bonus, in May 2022, was \$30,000. Any bonus is purely at the discretion of the board.

Chairman Badal said another issue for legal counsel, with respect hiring employees, is whether the NMSBIC wants to have a contractor with employees. Other considerations are whether the NMSBIC needs to hire other contractors rather than employees working for RDC Advisors LLC, or employees of the NMSBIC.

Ms. Beckett pointed out that, with employees, the NMSBIC will be hiring people in the HR world, which is very complex. Chairman Badal noted that the NMSBIC board is made up of volunteers. He said he personally did not want to be managing employees.

Responding to Ms. Alley, Chairman Badal said the NMSBIC is RDC Advisors LLC's only client. This might be a condition to consider in RDC Advisors LLC's contract. Mr. Kreienkamp said this would make sense, given the expected size of the portfolio going forward.

Mr. Smith said he would like to see language in the motion regarding the bonus and the amount; he recommended a 5 percent increase over last year's \$30,000 bonus as part of the new contract to \$31,500 this year.

Mr. Smith moved that, effective July 1, 2023, the NMSBIC renew the Professional Services Contract with RDC Advisors LLC that utilizes Russell Cummins as the NMSBIC's Executive Director/Investment Advisor (the "Contract") for a period of 5 years, from July 1, 2023, through June 30, 2028. The Contract may be terminated by either party with 180 days' prior written notice. Compensation under the Contract will be reviewed on an annual basis related to possible organizational changes and responsibilities related to the NMSBIC's asset growth. Beginning July 1, 2023, Mr. Cummins's compensation will be \$16,953.00 per month through June 30, 2024; and beginning July 1, 2024, his compensation will go up by 5 percent; and beginning July 1, 2025, his compensation will go up by 5 percent; and beginning July 1, 2026, his compensation will go up by 5 percent; and beginning July 1, 2027, his compensation

will go up by 5 percent; and that Joseph Badal or Alan Fowler are authorized to execute the Professional Services Contract on behalf of the NMSBIC.

Mr. Smith further moved that the NMSBIC Board of Directors approve bonus for Russell Cummins of \$31,500 for the fiscal year 2023.

Mr. Smith further moved to amend his motion to include that the NMSBIC will be RDC Advisors LLC's and Russell Cummins' only client, and that the contract specifies all responsibilities, and that Russell Cummins agrees NMSBIC shall remain his sole client. Mr. Morgan seconded the motion as presented and the motion passed unanimously. Mr. Kreienkamp abstained.

GROSS RECEIPTS ON ANNUAL BONUS

Mr. Cummins asked about the inclusion of gross receipts tax with the bonus, which has been the practice in past years.

Mr. Smith moved NMSBIC also compensate RDC Advisors LLC for the Gross Receipts tax for the \$31,500 bonus. The motion was seconded by Mr. Morgan and passed unanimously. Mr. Kreienkamp abstained.

BOARD CONTINUING EDUCATION – NEWS & FINANCE NEW MEXICO ARTICLES


Mr. Cummins called the board's attention to news articles and Finance New Mexico success stories starting on page 119.

NEXT BOARD MEETING: Friday, June 23, 2023, 9:00 a.m.

ADJOURNMENT: 11:56 a.m.



Joseph Badal, Chairman



Date