

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

June 23, 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. Alan Fowler, Vice President
Mr. Steven E. Morgan, Secretary/Treasurer
Ms. Anne Beckett
The Hon. Laura M. Montoya, New Mexico State Treasurer
Mr. Joshua Smith
Mr. Robert Valdiviez [via Zoom]

Members Excused

None.

Financial Adviser to Board

Mr. Russell Cummins

Board Legal Counsel

Mr. Randall McDonald

Recording Secretary

Ms. Charmaine Clair

Guests Present

Ms. Kristina Alley, Santa Fe Advisors, LLC [via Zoom]

REVIEW AND ACCEPTANCE OF AGENDA

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

BOARD MINUTES FOR APRIL 28, 2023

Mr. Fowler moved acceptance of the April 28, 2023, minutes as submitted. Mr. Smith seconded the motion, which passed unanimously.

FINANCIAL REPORTS AS OF APRIL 30, 2023, AND MAY 31, 2023

Mr. Cummins reported that, as of May 31, 2023, \$8.3 million is available for investment and there is a request for a \$5 million increase in the Ventana Fund on today's agenda.

Mr. Morgan moved to accept the April 30, 2023, and May 31, 2023, financial reports as presented. Mr. Fowler seconded the motion, which passed unanimously.

VERGE FUND, INVESTMENT UPDATE: TOM STEPHENSON, MANAGING GENERAL PARTNER

Mr. Cummins introduced Mr. Stephenson and noted that the investment in Verge I II Combined, net of returns, was \$2.9 million, with NMSBIC's share of the current estimated value at \$3.7 million. NMSBIC has had a relationship with Verge since 2011.

Mr. Stephenson emphasized the importance of NMSBIC to their history at Verge going back to 2004. NMSBIC was the initial anchor investor in Verge Fund I, and without them they would not have been able to do the first closing. He added that they would like to return more cash, but the 22 companies they have invested in over the fund's lifetime have provided jobs and opportunities in New Mexico. They want to continue to express their gratitude for support from NMSBIC.

Mr. Stephenson remarked on the recent passing of one of Verge's founding partners, Dr. Ray Radosevich, a professor at the UNM Anderson School of Business.

Mr. Stephenson said there has been some difficulty associated with the first-year audit for Verge I II Combined because the accounting firm they had been using for the audit was acquired and the new owners concluded that they didn't want to audit private equity funds. Unfortunately, they neglected to inform Verge for several months, so Verge got a very late start on the 2021 audit. Verge has since engaged the services of Pulakos CPAs, which completed the 2021 audit, and they were asked to begin the 2022 audit immediately following completion of the 2021 audit. Verge anticipates issuing a joint audit for 2021 and 2022 and will circulate a waiver request to the partners because this is outside of Verge's requirement for completion of the audit within 180 days.

Mr. Cummins said he and Dee Brescia were provided with draft consolidated financial statements of the various Verge funds into Verge I II Combined. They reviewed that in detail and provided feedback and are comfortable with the numbers.

Mr. Stephenson reported that Verge I II held investments in six companies last year. One company was written down to zero, leaving five remaining companies. Mr. Stephenson reviewed the five remaining companies.

Mr. Fowler asked where Mr. Stephenson sees venture capital in New Mexico.

Mr. Stephenson responded that it is a concern. If you look at the funding continuum, we have a lot of sources of seed capital, much of which has been driven by the SIC and the Catalyst Fund. If what you need to get started is \$500,000 there are a variety of sources. For more mature companies, people who invest in Series B financings are expecting companies that are whole enough in the assemblage of their team, so they don't care where the company is located. If they have the right story and value proposition, they should be able to secure funding that doesn't have to be based in New Mexico. The question is Series A, which is between seed capital and Series B. There is not much presence of Series A capital, and companies need more accessibility to Series A capital. On a different note, some good news is that with remote work, when companies are acquired, there is more opportunity for local employees to remain here. Companies in places like the Bay Area in California look at the cost of living and ask why they would move employees to California. Because of this, we are starting to see split teams, with management based in one place and the technical team remaining here in New Mexico. However, we still need to look at the whole funding continuum to ensure there are opportunities for entrepreneurs. He commented that NMSBIC's work to support micro lenders and alternative lenders is excellent for companies where venture capital is not the right fit.

[Mr. Stephenson left the meeting.]

Mr. Cummins noted that the NMSBIC invested \$9 million in the various Verge funds, of which about \$6 million has been returned, for a remaining net investment of about \$3 million. The estimated fair value of the NMSBIC's investment in Verge Fund is \$3.7 million, resulting in a \$700,000 unrealized gain. The NMSBIC is carrying the Verge investment at \$1.5 million based on the Cost Method. Based on these numbers, if \$3.7 million were returned today, the NMSBIC would have a realized gain of about \$2.2 million that would likely be returned to the Severance Tax Permanent Fund.

EXECUTIVE DIRECTOR/INVESTMENT ADVISOR REPORT

- NMSBIC has \$123 million in assets, of which \$112 million is committed. Outstanding traditional loans are at \$56 million, with \$13.7 million in COVID-19 loans, and \$84,000 in PPP loans, for a total of \$69.8 million.
- DreamSpring's audited financial statements have been received.
- The NMSBIC is projected to receive an increase in assets over the next several years, and he is discussing with lending partners the need to grow net assets to support future growth.
- Mr. Cummins is discussing renewing the existing line of credit with the Mortgage Finance Authority used for MFA's Primero program. MFA would like to renew their line of credit with the NMSBIC to help finance a project in Tierra del Sol in early 2024. In addition, MFA is also developing single-family lots in Taos in order to build workforce housing. They have received a grant for land and infrastructure. Once the lots are ready for building, they would like to provide lines of credit to builders and hope deploy \$2.5

million of NMSBIC funding in early 2024. MFA will make a presentation to the NMSBIC board at the August meeting.

Chairman Badal asked Mr. Cummins to allot sufficient time for MFA to discuss all of their programs, since there are several.

Mr. Cummins noted that MFA is working on developing a neighborhood revitalization program, where they purchase boarded-up houses all around the state, and have a contractor remodel and sell them to first-time homebuyers. MFA received \$4 million in grant funding from the Housing Trust Fund for this effort, which they call Revitalizing Our Community (ROC). Ultimately, they would like a \$2 million revolving line of credit from NMSBIC for the purchase of the homes, while using the grant funds to cover any losses when completed properties are sold. MFA would require a separate NMSBIC loan agreement for its ROC program, because it would not be allowed to commingle funds with its Primero program.

In total, MFA would like to increase its NMSBIC line of credit used for its Primero program from \$2.5 million to \$3.5 million, and would like a separate \$2 million line of credit for its ROC program.

Treasurer Montoya noted that most of the houses they have worked on are in Valencia County, Taos County and San Miguel County.

Mr. Morgan suggested MFA look at Quay County and Tucumcari, which is full of abandoned homes. These areas want to revitalize their communities, but have very few resources.

Chairman Badal suggested Mr. Morgan reach out to his contacts in Quay County and urge them to get in touch with MFA.

- Mr. Cummins and Chairman Badal had lunch with Sam Collins, who runs the New Mexico Economic Development Department's (EDD) Collateral Assistance Program as well as the deployment of New Mexico's State Small Business Credit Initiative (SSBCI) funds. New Mexico was awarded \$74 million in federal grants to help small businesses, which will be provided to New Mexico over ten years. EDD has received about \$22 million in funding so far that has been allocated to venture capital investments. The New Mexico Finance Authority (NMFA) has received \$50 million in separate funding for venture capital investments. EDD believes investing additional SSBCI funds to be received might be duplicative. Mr. Cummins suggested to Mr. Collins the idea of EDD using SSBCI funds to support New Mexico CDFIs. Last week, Mr. Cummins and Mr. Collins had a Zoom call with Anne Haines of DreamSpring, as well as the person managing North Carolina's SSBCI funds of about \$200 million. They shared ideas during the call about how SSBCI funds might potentially be used to support CDFIs in New Mexico. Another meeting is scheduled for next week.
- Chad Cooper is no longer with One Hope, and Ken Carson, who was a board member, resigned but indicated he still supports One Hope. Mr. Cummins met with the three

remaining directors at a Juneteenth lunch last week. He had a very preliminary discussion with them and plans to follow up. The directors indicated that they would like to make changes to the business plan originally provided to NMSBIC, and would like to continue discussions regarding a line of credit from the NMSBIC.

VENTANA FUND: PROGRAM UPDATE AND PROPOSED MODIFICATION TO LINE OF CREDIT

Chairman Badal said this is in response to the board asking Mr. Cummins to meet with partners on how to adjust requirements for them to see if NMSBIC could deploy more funds.

Ventana board chairman Todd Clarke reported that they have had a phenomenal growth over the nine years he has been the chair, growing from a \$2 million loan fund to \$26 million today, and they could be close to \$30 million with funds from the federal government and other partners by the end of the year. They have gone from volunteers to full-time professionals, and recently hired Alexandria Romero, operations manager, and Kendra Yevoli, executive director, to supplement their consultants. They have also expanded their partnerships and have multiplied their dollars related to the federal government, the NMSBIC, and grant funds.

Mr. Clarke said their focus is on rural outreach. Los Alamos National Labs will be adding 1,500 jobs and held a housing summit in Española in the spring. Many of the things in Mayor Keller's Housing Forward plan related to Accessory Dwelling Units came from the housing summit that Ventana Fund hosted in Albuquerque last year, and on August 8 they will hold an event in Santa Fe and plan another in Las Vegas, New Mexico. They plan to do the same in the next fiscal year in the two southern corners of the state.

Mr. Clarke said they have a diversity initiative that will be part of a formal policy update to impact their buyer/ borrower profile. They have a \$48,000 budget for a formalized diversity training program to work with realtors who are serving much of this clientele, and they believe they plan to train about 400 people over the next two years.

Mr. Cummins said that, when NMSBIC first established the relationship, there was uncertainty about what would happen with the properties after a few years, which was the key reason for the limit on the loan to value. There is a proposal now to increase the 55% loan to value to 70% loan to value, and part of the justification is Ventana now has history showing what is happening with these loans and the ability to get them paid off.

Mr. Clarke said Ventana's second focus is on military housing. Holloman Air Force base needs 400 housing units or will begin losing personnel. Ventana has met with a land developer who owns about 4,500 acres outside of Alamogordo. Ventana plans to find a production homebuilder or somebody who makes small houses, build them and show everybody how the model works, and hopefully that will lead to new housing units.

Treasurer Montoya asked how increasing the loan to value to 70% benefits Ventana and the borrowers.

Mr. Clarke responded that this frees up \$1.93 million immediately, which can be paired up with other funds, and means they can do about \$4 million in loans. This translates to \$5-\$6 million of housing. He said the other part of their request today is to increase their total credit capacity with the NMSBIC to \$20 million, which puts them in a position to actively go out and get grants to match those funds.

[The Ventana team stepped out of the room before the vote was taken.]

Mr. Smith said he would abstain from the vote because Ventana is a client of his bank.

Treasurer Montoya moved, seconded by Mr. Fowler, that the NMSBIC board of directors approve the following modifications to the NMSBIC's line of credit with Ventana Fund to:

- **Increase the allowable loan-to-value for NMSBIC funds from 55% to 70% of properties, based on the lower of cost or appraisal value, and**
- **Increase the maximum funding amount from \$15 million to \$20 million, and**
- **That Joseph Badal or Alan Fowler be authorized to execute any and all documents related to the loan modification, subject to review and approval by the NMSBIC's Executive Director/Investment Advisor and the NMSBIC's legal counsel, and**
- **Report back to the board when completed.**

The vote passed unanimously, with Mr. Smith in abstention.

[Break.]

HOMEWISE, INC., PROPOSED MODIFICATION TO LINE OF CREDIT

Mr. Cummins stated that he met with Daniel Slavin, Homewise's Chief Financial Officer and Director of Real Estate Development about what the NMSBIC might do to help Homewise grow its small business lending program. Mr. Cummins noted that Homewise has a very strong balance sheet, with \$208 million in assets, \$77 million in net assets, and net income in 2022 of \$7 million. NMSBIC has no risk of loan loss on individual loans, and the organizational risk is low.

Mr. Cummins said their discussion included the following highlights:

- Deployment of NMSBIC funds has been limited by the amount of funding it is required to provide for its loans. The NMSBIC limits its funds to 50% of the value of properties. Homewise's average loan-to-value (LTV) on its loan is about 74%, and it provides its own funds to make up the difference.
- Homewise has identified a charter school where a property will be purchased, and Homewise will provide construction financing to remodel it. The loan amount will be about \$4 million. In order to accommodate this loan and future charter school loans, Homewise is requesting an increase to the maximum of NMSBIC funding for any one borrower from \$1 million to \$5 million.

Mr. Cummins said Mr. Slavin would like the NMSBIC board to increase the allowable LTV for NMSBIC funds from 50% to 70% and to increase the maximum NMSBIC funding for any one borrower limit from \$1 million to \$5 million.

Mr. Smith requested a brief summary of each of Homewise's borrowers and what the funds are being allocated to.

Treasurer Montoya asked if there is a plan to ensure that property values don't go under the loan amount if property values drop.

Chairman Badal said this came up at a recent Board of Finance meeting. Because of inflation and supply chain issues, the cost of property has gone through the roof. The concern is that, if things stabilize, property values might drop, and the banks might be required to take actions by the regulators. For the NMSBIC, the good news is that the proposed 70% LTV still provides a cushion.

Mr. Cummins commented that there is always a risk of declining property values. The proposed change is from 50% LTV to 70% LTV, but 70% LTV is still considered conservative and provides a cushion if property values decline.

Mr. Cummins recommended approval of both requests.

Treasurer Montoya moved, seconded by Mr. Fowler, that the NMSBIC board of directors approve the following modifications to the NMSBIC's line of credit with Homewise to:

- **Increase the maximum amount of NMSBIC funds used for any one borrower to the lesser of (a) seventy percent of the lower of the appraised value or cost of the real estate, and (b) five million dollars; and**
- **That Joseph Badal or Alan Fowler be authorized to execute any and all documents related to the loan modification, subject to review and approval by the NMSBIC's Executive Director/Investment Advisor and the NMSBIC's legal counsel, and**
- **Report back to the board when completed.**

The motion passed unanimously.

**NMSBIC PROFESSIONAL SERVICES CONTRACT RENEWALS:
DEE BRESCIA, JUDITH BEATTY, AND RANDALL MCDONALD**

Mr. Cummins said he would recommend approval of these contract renewals, which are done annually. Randy McDonald, legal counsel, has no changes in pricing and terms at \$225 per hour plus New Mexico gross receipts tax; Judith Beatty, the recording secretary, proposed an increase from \$50 per hour to \$55 per hour plus New Mexico gross receipts tax; and Dee

Brescia, the accounting secretary, proposed no changes at \$147 per hour plus New Mexico gross receipts tax.

Treasurer Montoya moved, seconded by Ms. Beckett, to approve renewal of the Professional Services Contracts for one year from July 1, 2023, to June 30, 2024, for:

- **Randall McDonald with no changes to pricing or terms; and**
- **Judith Beatty at an hourly rate of \$55 per hour plus New Mexico Gross Receipts Tax, with no other changes to terms; and**
- **Dee Brescia with no changes to pricing or terms; and**
- **Joseph Badal or Alan Fowler be authorized to execute any and all documents related to renewal of the contracts, subject to review and approval by the NMSBIC's Executive Director/Investment Advisor and the NMSBIC's legal counsel.**

The motion passed unanimously.

NMSBIC PROPOSED BUDGET FOR YEAR ENDING JUNE 30, 2024

Mr. Cummins said the summary of budget details was on page 68, with a history of NMSBIC results dating back to 2014. He noted that total revenue has grown from \$293,000 in 2014 to a \$2.9 million proposed budget for FY 2024.

Mr. Fowler moved to approve the proposed budget for the year ending June 30, 2024, as presented. The motion was seconded by Mr. Smith and passed unanimously.

DIRECTORS AND OFFICERS INSURANCE POLICY RENEWAL

[Informational]

Mr. Cummins said the NMSBIC board approved the directors and officer insurance policy renewal subject to the premium being less than \$5,500. The premium was renewed at \$4,578. In previous years, the insurance company only offered a package policy which included employee practices liability (EPL) coverage, which the NMSBIC did not need. Thanks to Mr. McDonald's persistence, the insurance company agreed to remove the EPL coverage which decreased the amount of the renewal and saved the NMSBIC about \$200.

Chairman Badal asked if a \$1 million policy is a sufficient amount. Mr. McDonald responded that members of the board have statutory protection and it would be difficult to sue any board member personally. He does not see the risk justifying a higher coverage amount, especially because the NMSBIC doesn't have any employees.

Noting the NMSBIC's financial condition today compared to years ago, Chairman Badal suggested Mr. Cummins check with the insurance company to see if they could drop the premium by increasing the amount of self-insurance and go to a \$20,000 (or higher) deductible instead of \$10,000.

NMSBIC GROWTH PLANNING UPDATE

Mr. Cummins reported that, on May 15, Chairman Badal, Josh Smith, Randy McDonald and he met to discuss how to deploy additional funding. He and Mr. McDonald are continuing to research this and would like to bring that back to the board when there is sufficient time for an in-depth discussion.

NMSBIC PROPOSED LOAN-TO-ONE-BORROWER TARGET

Mr. Cummins said Chairman Badal had asked him to make a recommendation regarding loans-to-one-borrower (LTOB) for the NMSBIC. This is not a limit for a lending partner's loans to its borrowers which the NMSBIC's legislative requirements limit to 10% of the NMSBIC's net assets, but a recommendation regarding a limit for loans the NMSBIC makes to its lending partners. Mr. Cummins referred to a table showing the NMSBIC commitments to its lending partners. The NMSBIC's largest commitment is to The Loan Fund; the \$35 million commitment is 28% of the NMSBIC's net assets. Assuming the NMSBIC receives an additional \$20 million in funding from the severance tax permanent fund in early 2024, that ratio should drop to about 24%.

In order to diversify the NMSBIC's lending portfolio and limit risk related to any one lending partner, Mr. Cummins recommended the NMSBIC establish a LTOB target of no more than 25% of net assets.

Ms. Beckett noted that the total committed is 88% of the NMSBIC's assets. She said a consideration might be to evaluate risks if property values were to decrease.

Chairman Badal noted that the NMSBIC has maintained an operating reserve to try to make sure it has enough money to cover a couple of years of operating reserves, but has never looked at the risk cited by Ms. Beckett.

Mr. Cummins said he has reviewed the possibility of increasing the NMSBIC's allowance for loan losses. He said there would need to be probable losses to increase its loan loss reserve. Given, the NMSBIC is insulated from losses by its lending partners, an increase in the NMSBIC's loan losses are not considered probable.

Chairman Badal suggested that there be a board consideration each time they approach 90% or whatever number is established. Any director who feels uncomfortable should raise the issue, but he did not believe a policy was necessary.

Mr. Smith moved that the NMSBIC board of directors establish a loan-to-one-borrower target such that no loan to any NMSBIC lending partner exceeds twenty-five percent of the NMSBIC's net assets. Mr. Fowler seconded the motion.

Responding to Mr. Fowler, Mr. Cummins said this is a target rather than a lending policy, but it would still be appropriate for the board to approve any increase over the 25% target.

Chairman Badal said there is nothing in the policy about not making equity investments. He wondered if equity partners should be included in this policy and asked Mr. Cummins to schedule this discussion on the next agenda.

The motion passed unanimously.

NMSBIC BUSINESS CONTINUITY PLAN TEST AND UPDATE

Mr. Cummins reported that he has updated the information and the list of contacts in the Business Continuity Plan, which is available on the NMSBIC's shared drive. Mr. Cummins and Dee Brescia have access to the shared drive. The plan was tested to ensure everything is current.

NMSBIC INVESTMENT POLICY ANNUAL REVIEW

Mr. Cummins said the NMSBIC Investment Policy is approved annually. Changes he has made to the policy include correction of a typo on page 2 and changing the name of the NMSBIC Core-Plus Bond Pool to the Credit-Plus Pool.

Ms. Beckett moved the NMSBIC board of directors approve the attached NMSBIC Investment Policy, with changes that include correction of a typographical error on page 2, and a change to the name of the NMSBIC's investment with the New Mexico State Investment Council from the Core Plus Bond Pool to the Credit-Plus Pool. Mr. Fowler seconded the motion, which passed unanimously.

NMSBIC PROPOSED NEW MEMBERS OF BOARD OF DIRECTORS

Mr. Cummins stated that Joseph Badal and Alan Fowler have been on the NMSBIC board since 2011, and Steve Morgan since 2013. All three have expressed interest in stepping down subject to the Governor's appointment of replacements.

Mr. Cummins referred to resumes for three potential new NMSBIC board members, Kristina Alley, Marshall Shore, and Joshua Grassham. All three candidates have banking or investment backgrounds. He recommended that the NMSBIC board of directors make a recommendation to Governor Lujan Grisham to appoint these three individuals to the NMSBIC board of directors.

Mr. Smith moved that the NMSBIC board of directors make a recommendation to Governor Lujan Grisham to appoint Kristina Alley, Marshall Shore, and Joshua Grassham to the NMSBIC board of directors. Mr. Morgan seconded the motion, which passed unanimously, with Treasurer Montoya in abstention.

Treasurer Montoya stated that she did not have an opportunity to review the resumes in detail and therefore did not vote on of the recommendations.

The following informational items were postponed to the next meeting:

NMSBIC'S ABILITY TO HIRE A LOBBYIST

BOARD CONTINUING EDUCATION: BBER ECONOMIC SNAPSHOT

CHAIRMAN'S COMMENTS

None.

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

ADJOURNMENT: 12:00 p.m.



Joseph Badal, Chairman

8 / 18 / 23

Date