

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

June 21, 2024

A meeting of the New Mexico Small Business Investment Corporation was called to order on this date at 9:00 a.m. at Santa Fe Advisors LLC, 330 Garfield St, Santa Fe, NM 87501. A quorum was established.

Members Present

Mr. Joshua Smith, Chair

Ms. Anne Beckett, Vice Chair

Mr. Robert Valdiviez, Secretary/Treasurer (via Zoom, left the meeting at 10:36 am)

Mr. Arsenio Garduño, designee of Hon. Laura M. Montoya, NM State Treasurer

Ms. Sayuri Yamada (joined the meeting at 9:20 am)

Mr. Joshua Grassham (via Zoom)

Ms. Kristina Alley

Members Excused

None

Executive Director/Financial Adviser to Board

Mr. Russell Cummins

Board Legal Counsel

Mr. Randall McDonald

Recording Secretary

Position is currently vacant

Guests Present:

None

REVIEW AND ACCEPTANCE OF AGENDA

Ms. Beckett moved approval of the agenda, as published. Mr. Garduño seconded the motion, which passed unanimously by roll call vote.

BOARD MINUTES FOR APRIL 19, 2024

Ms. Beckett moved approval of the Board Minutes for April 19, 2024, as presented. Ms. Alley seconded the motion, which passed unanimously by roll call vote.

FINANCIAL REPORTS AS OF MARCH 31, 2024, APRIL 30, 2024, AND MAY 31, 2024

Mr. Cummins noted that financial reports for March and April were emailed to board members. He provided an overview of the May 31, 2024, financial statements. He noted that net excess funds at the end of the fiscal year will be returned to the severance tax permanent fund. Mr. Cummins said that funds available for investment and operations were \$5.4 million.

Ms. Beckett moved to accept the March 31, 2024, April 30, 2024, and May 31, 2024, Financial Report as presented. Ms. Alley seconded the motion, which passed unanimously by roll call vote.

Ms. Yamada joined the meeting.

NMSBIC PROPOSED CONCENTRATION TARGETS BY PRODUCT TYPE

Mr. Cummins noted this item was tabled at the last meeting for board members to consider the proposed loan concentration targets. Mr. Cummins reviewed the targets in the report. Ms. Beckett suggested the targets be reviewed every year or so, in case a target for another kind of loan should be added. Mr. Cummins responded that he plans to include the report in the board package at each board meeting. Chair Smith said he believes the targets are important, especially if we pivot toward other uses of funds. Ms. Beckett noted we are supporting the construction industry with the workforce housing and charter school buckets. She thinks that might be well and good now, but it would be good to have a conversation once a year or so to make sure it still makes sense going forward. Chair Smith said we are setting a bar that we can modify at any time. Mr. McDonald said he is not sure target is the right word and perhaps it should be a limit or guideline. Mr. Cummins noted the proposed board motion does not refer to the word target and said he would change target to guideline in future reports.

Ms. Beckett moved that the NMSBIC board of directors adopt concentration limits of (1) no limit on standard small business loans, (2) no more than 35% of net assets for workforce housing, and (3) no more than 25% of net assets for charter school facilities. Ms. Yamada seconded the motion, which passed by unanimous roll call vote.

DIRECT LOAN COMPANY A, PROPOSED CHANGES TO CONSENT AGREEMENT

Mr. Cummins said the NMSBIC acquired two notes from the New Mexico Gap Fund I Limited Partnership, when the partnership was terminated in 2021. The NMSBIC now has direct ownership in the notes and refers to the borrowers as Company A and Company B. Company A has requested changes to a Consent Agreement approved by the NMSBIC board of directors in April 2021. Changes requested are (1) waiving the audit requirement for 2023 and 2024, (2) increasing the amount of additional debt that

is subordinate to the NMSBIC from \$4 million to \$6 million, and (3) allowing debt that is senior to the NMSBIC up to two percent of the company's value. Regarding a waiver of the audit, the company plans to achieve an exit in 2026, and will have an audit completed before that date. Mr. Cummins said it is not uncommon for venture capital startup companies to operate without audits. He said the manager of NM Gap Fund I recommended adding the audit requirement in 2021, to encourage Company A to prepare for buyer due diligence prior to an exit. Regarding the subordinate and senior debt, the company believes its estimated market value, for which there is a third-party valuation done each year, supports the requested increase in debt limits. Mr. Cummins said he agrees the third-party estimated value supports increased debt limits for the company. However, rather than allowing senior debt up to two percent of the company's estimated market value, Mr. Cummins recommended limiting debt that is senior to the NMSBIC to a fixed dollar amount of \$375,000. Mr. Grassham said a sticking point for him is the audit. He gets that they are trying to save money, but his bank requires borrowers to provide audited financial statements. Mr. Smith suggested waiving the audit for only one year rather than two years. Mr. Valdiviez asked about the company's loan balance with the NMSBIC. Mr. Cummins responded it's a \$200,000 loan with roughly \$250,000 in accrued interest. Mr. Valdiviez said it's not like we have a \$5 million loan. We're talking about principal of \$200,000. Chair Smith said we would not want to lose \$200,000, but if the company has a successful exit NMSBIC stands to receive \$2.5 million. Ms. Yamada noted this is venture capital startup and believes they need every penny to ramp up sales.

Ms. Yamada made a motion that for the NMSBIC's direct loan identified as Company A, the NMSBIC board of directors approve:

- **Waiving the external audit of its financial statements as of December 31, 2023; and**
- **Allowing up to \$6 million in additional debt issued after April 30, 2021, that is subordinate to the NMSBIC; and**
- **Allowing up to \$375,000 in debt that is senior to the NMSBIC; and**
- **That Joshua Smith or Anne Beckett be authorized to sign any and all documents related to these changes, subject to review and approval by the NMSBIC's legal counsel and the NMSBIC's executive director/investment advisor; and**
- **That the NMSBIC's executive director/investment advisor report back to the board when the changes have been completed.**

Mr. Valdiviez seconded the motion, which was passed by roll call vote with six yes votes and zero no votes. Mr. Garduño abstained.

NMSBIC INVESTMENT POLICY ANNUAL REVIEW

Mr. Cummins referred to the NMSBIC Investment Policy in the board package. There are no recommended changes. The NMSBIC board reviews and approves the NMSBIC

Investment Policy annually. A copy is provided to the State Investment Council (SIC) related to the Joint Powers Agreement between the NMSBIC and the SIC.

Ms. Yamada made a motion that the NMSBIC board of directors approve the NMSBIC Investment Policy, with no changes. Ms. Alley seconded the motion, which passed unanimously by roll call vote.

NMSBIC BUSINESS CONTINUITY PLAN TEST

Mr. Cummins presented the NMSBIC updated business continuity plan, key contact information, and the six-month test that was recently performed. Mr. Garduño asked that the Treasurer's personal cell phone number be removed and replaced with her office number. Mr. Cummins said he would make that change. Mr. Cummins noted that Randy McDonald has spare keys to the NMSBIC safe deposit box and post office box. He also noted that the NMSBIC's electronic records are continuously backed up to the cloud, and that Dee Brescia has access to records stored in the cloud.

EXECUTIVE DIRECTOR/INVESTMENT ADVISOR REPORT

- Mr. Cummins presented a detailed review of DreamSpring's lending program. Ms. Becket said she learned a lot, and asked if we should do this for other lending partners. Mr. Cummins said it would make sense to review The Loan Fund's lending program next.
- Mr. Cummins presented information showing where NMSBIC funds are deployed in New Mexico, including rural areas. He noted that DreamSpring and The Loan Fund stand out for the amount of loans originated throughout the entire state. Ms. Beckett noted that RBC is also delivering loans throughout the state, and it's good to see they are actually delivering. Responding to a request from Chair Smith, Mr. Cummins provided a brief overview of the NMSBIC's partnership with RBC.
- Mr. Cummins and Chair Smith recently attended a Federal Reserve Bank Investment Connection lunch. Presentations were made by two Native CDFIs. Mr. Cummins will follow up to see if there are possible partnership opportunities.

Mr. Valdiviez excused himself and exited the meeting.

NMSBIC PROPOSED BUDGET FOR THE YEAR ENDING JUNE 30, 2025

Mr. Cummins referred to a proposed budget for the NMSBIC's fiscal year ending June 30, 2025. He noted:

- Outstanding loans are projected to pass the \$100 million mark in the next year.
- An interest rate projection from the Federal Reserve Bank was used to budget

rates on money market funds, which are projected to drop about 70 basis points over the next year.

- Outstanding loans are projected to grow by \$30 million. The increase in interest income on loans will be offset by reduced interest income on short-term investments.
- We are projecting the NMSBIC will receive a \$30 million contribution from the severance tax permanent fund. Interest earned on these funds in the last part of the fiscal year should result in an increase in total interest income.
- Interest margin on loans will more than offset operating expenses. The NMSBIC tracks this spread as a measure of self-sufficiency.
- Dues and memberships include \$2,500 for the New Mexico Impact Investing Collaborative, \$1,000 for the Bureau of Business and Economic Research (BBER), and \$500 for an associate membership in the Independent Community Bankers Association (ICBA). Approval of the budget includes approval to renew these items.
- We do not budget for gains or losses on equity investments because we are not able to predict these amounts.
- Management expense as a percentage of assets has dropped from 0.66% in 2014 to 0.24% in 2024 and is projected to increase to 0.26% in 2025 with proposed staff additions.

Ms. Beckett moved approval of the 2024-2025 budget as presented in the board package, and that renewal of annual subscriptions or memberships be approved for New Mexico Impact Investing Collaborative at \$2,500, Bureau of Business and Economic Research at \$1,000, and Independent Community Bankers Association at \$500. Mr. Garduño seconded the motion, which passed unanimously by roll call vote.

PROFESSIONAL SERVICE CONTRACT RENEWALS

Mr. Cummins recommended renewal of professional service contracts, for one year, for Randall McDonald and Dee Brescia.

Ms. Yamada moved to approve renewal of the Professional Service Contracts for one year from July 1, 2024, to June 30, 2025, for:

- **Randall McDonald with no changes to terms other than a price increase from \$225 per hour to \$235 per hour, plus New Mexico Gross Receipt Tax; and**
- **Dee Brescia with no changes to pricing or terms; and**
- **The NMSBIC's president and board chair or vice president and vice chair 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; and**
- **The executive director/investment advisor will report back to the board when**

the contracts have been executed.

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

PROPOSED NEW PROFESSIONAL SERVICE CONTRACTS

Mr. Cummins indicated Chair Smith approved a contract with HireQuest staffing services for a temporary employee to take minutes at NMSBIC board meetings. The contract was reviewed by Mr. Cummins and Mr. McDonald and was approved under the board chair's authority to approve contracts and expenses up to \$1,500. Mr. Cummins recommended the board ratify the contract.

Ms. Alley made a motion to ratify a professional services contract between the NMSBIC and HireQuest dated April 17, 2024, to provide administrative support to the NMSBIC at a rate of \$48.51 per hour, plus New Mexico gross receipts tax, and the NMSBIC is authorized to utilize administrative support services from HireQuest on an ongoing basis. Ms. Yamada seconded the motion, which was passed unanimously by roll call vote.

Mr. Cummins recommended the NMSBIC board approve a new proposed contract with Loftis & Lovato to provide financial analysis and support to the NMSBIC. Services will be performed by Michelle Corley, who has done similar contract work for Ventana Fund, and is highly recommended by Todd Clarke at Ventana Fund.

Ms. Beckett made a motion to approve:

- **A new professional services contract with Loftis & Lovato Group to provide financial analysis support to the NMSBIC at a cost of \$105.00 per hour, plus New Mexico gross receipts tax; and**
- **The NMSBIC's president and board chair or vice president and vice chair be authorized to execute any and all documents related to the contract, subject to review and approval by the NMSBIC's Executive Director/Investment Advisor and the NMSBIC's legal counsel; and**
- **The executive director/investment advisor will report back to the board when the contract has been executed.**

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

BOARD MEETING SOFTWARE, APPROVAL OF PROPOSED NEW SOFTWARE

Mr. Cummins presented comparative information with features and cost of board reporting software from various companies. He noted that software from Notion appears to be the most affordable and is used and recommended by Ventana Fund. Mr.

Cummins suggested this item be tabled for a future board meeting, at which time he will provide a demonstration of the Notion software.

DIRECTORS' AND OFFICERS' INSURANCE POLICY RENEWAL

Mr. Cummins said the NMSBIC'S insurance agent, HUB International, obtained competitive quotes from different companies this year for the NMSBIC's directors' and officers' insurance policy. The quote from the NMSBIC's current insurance company, Admiral Insurance Company, continues to provide the best pricing. Quotes were obtained for deductibles of \$10,000 and \$20,000. The discount for a \$20,000 deductible was relatively small, and Mr. Cummins recommended keeping the existing \$10,000 deductible.

Ms. Alley made a motion to renew the NMSBIC's \$1 million directors' and officers' insurance policy with Admiral Insurance Company, from June 23, 2024, to June 23, 2025, with a deductible of \$10,000, and annual premium of \$4,765.95. The executive director/investment advisor will report back to the board after the policy has been issued. Ms. Beckett seconded the motion, which was passed unanimously by roll call vote.

NEW MEXICO PER DIEM ACT, BOARD COMPENSATION

Mr. Cummins said he and Mr. McDonald have reviewed rules regarding reimbursement of NMSBIC directors under the New Mexico Per Diem Act and the NMSBIC's statutory requirements. The NMSBIC's enabling legislation allows for reimbursement of public members of the board under the Per Diem and Mileage Act. The State Treasurer is excluded from reimbursement by the NMSBIC. The Treasurer may seek reimbursement from the New Mexico State Treasurer's office as allowed under the Per Diem and Mileage Act.

Public officers are entitled to receive reimbursement from the NMSBIC for mileage expense for each mile traveled in a privately owned vehicle. No change to the NMSBIC's travel expense reimbursement form is needed.

Public officers are entitled to receive either (A) a per diem of \$95 for meetings of four hours, or \$45 for meeting less than four hours or video/phone meetings, per day, or (B) reimbursement for actual lodging, meals, and incidental expenses not to exceed maximum amounts established by the Department of Finance and Administration (DFA). Mr. Cummins and Mr. McDonald recommend the NMSBIC reimburse directors for actual expenses, and not pay a per diem. If approved, Mr. Cummins will remove the per diem option from the NMSBIC's travel expense reimbursement form, and add the maximum amounts established by the DFA.

Ms. Alley made a motion to change the NMSBIC's procedures and update the NMSBIC Travel Expense Reimbursement form to: (1) remove the Per Diem option for lodging, meals, and other incidental expenses, and (2) update the form with maximum amounts of lodging, meals, and incidental expenses established by the Department of Finance and Administration; and that the NMSBIC's executive director/investment advisor distribute the revised NMSBIC Travel Expense and Reimbursement form to NMSBIC directors once it is updated. Ms. Yamada seconded the motion, which was passed unanimously by roll call vote.

BOARD CONTINUING EDUCATION

Mr. Cummins referred to the Bureau of Business and Economic Research's *Economic Snapshot* as of May 2024, and noted highlights from the report.

CHAIR'S COMMENTS

Chair Smith thanked everyone for attending.

ADJOURNMENT

Ms. Yamada moved to adjourn at 11:40 a.m. Ms. Beckett seconded the motion, which passed unanimously by roll call vote.

ADJOURNMENT: 11:40 a.m.



Joshua Smith, Board Chair

8/20/24

Date