

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

**December 12, 2024**

A meeting of the New Mexico Small Business Investment Corporation was called to order on this date at 9:11 a.m. at DreamSpring, 2000 Zearing Ave NW, Albuquerque, New Mexico 87104. Board members noted below attended the meeting via Zoom from the New Mexico State Treasurer's Office. A quorum was established.

**Members Present**

Mr. Joshua Smith, Chair (via Zoom from the State Treasurer's Office)  
Ms. Anne Beckett, Vice Chair (via Zoom)  
Mr. Robert Valdiviez, Secretary/Treasurer (via Zoom)  
Hon. Laura M. Montoya, NM State Treasurer (via Zoom from the State Treasurer's Office)  
Ms. Sayuri Yamada (via Zoom from the State Treasurer's Office)  
Ms. Kristina Alley (via Zoom from the State Treasurer's Office)

**Members Excused**

Mr. Joshua Grassham

**Executive Director/Financial Adviser to Board**

Mr. Russell Cummins (via Zoom from the State Treasurer's Office)

**Board Legal Counsel**

Mr. Randall McDonald (at DreamSpring Offices)

**Recording Secretary**

Position is currently vacant.

**Guests Present:**

Mr. Robert De Pasquale, Tax Partner, Pulakos CPAs (via Zoom)  
Ms. Janice Barela, Deputy Treasurer, New Mexico State Treasurer's Office (via Zoom at State Treasurer's Office)  
Mr. Arsenio Garduño, Collateral Manager, New Mexico State Treasurer's Office (via Zoom at State Treasurer's Office)

**REVIEW AND ACCEPTANCE OF AGENDA**

**Treasurer Montoya moved approval of the agenda, as published. Ms. Yamada seconded the motion, which passed unanimously by roll call vote.**

## **BOARD MINUTES FOR OCTOBER 18, 2024**

**Treasurer Montoya moved approval of the Board Minutes for October 18, 2024, as presented. Ms. Alley seconded the motion. All board members who were present voted yes except for Treasurer Montoya who abstained. The motion passed by roll call vote.**

### **NMSBIC PURPOSE FROM THE SMALL BUSINESS INVESTMENT ACT**

Mr. Cummins said this information was provided for reference.

### **IRS FORM 990 DRAFT TAX RETURN**

Mr. Cummins introduced Robert De Pasquale, Tax Partner with Pulakos CPAs, to present the IRS informational tax return for 2023, for the NMSBIC's fiscal year ended June 30, 2024. Mr. De Pasquale reviewed the draft tax return. He highlighted the section regarding the organization's policies, and noted the NMSBIC has all the policies noted in the tax return.

Mr. Cummins referred to a note included in the tax return that states the organization does not pay for health insurance, retirement benefits, gross receipts tax, or employer payroll taxes for Mr. Cummins, who is an independent contractor.

Chair Smith asked about Part VI, Section A.7a. Mr. De Pasquale responded the box is checked yes because the Governor of the State of New Mexico appoints the public members of the NMSBIC board of directors.

Treasurer Montoya asked about the increase in liabilities. Mr. De Pasquale responded there was an increase in Net Excess Funds due to the Severance Tax Permanent Fund. Mr. Cummins added that payment of Net Excess Funds to the Severance Tax Permanent Fund is required under the NMSBIC's enabling legislation. Treasurer Montoya asked if it only includes interest earned on the Local Government Investment Pool and the State Investment Council bond pool. Mr. Cummins responded that Net Excess Funds includes all interest income, including interest earned on its lending program, plus realized gains, less operating expenses and loss reserves.

**Mr. Valdiviez moved to accept the IRS Form 990 Tax Return, as presented. Ms. Yamada seconded the motion, which passed unanimously by roll call vote.**

Treasurer Montoya asked for the minutes to reflect the conversation about the increase in liabilities and that the liabilities represent funds that are given back to the Severance Tax Permanent Fund.

## **FINANCIAL REPORTS AS OF SEPTEMBER 30, 2024, AND OCTOBER 31, 2024**

Mr. Cummins referred to the narrative provided in the board package and asked if there were any questions. He added that funds available for investments and operations were \$5.8 million.

Treasurer Montoya asked that wording in the Statements of Cash Flows, Investing Activities be changed from “Sale (Purchase) of Investments” to “Net Increase (Decrease) in Investments”. She noted the activity includes Local Government Investment Pool transactions. Mr. Cummins said he will have the wording changed.

**Treasurer Montoya moved to accept the financial reports as of September 30, 2024, and October 31, 2024, as presented. Ms. Yamada seconded the motion, which passed unanimously by roll call vote.**

### **NEW MEXICO COMMUNITY DEVELOPMENT LOAN FUND, PROPOSED CHANGES TO LINE OF CREDIT**

Mr. Cummins said that at the last two meetings, the NMSBIC board of directors approved waivers of the Liabilities-to-Net Assets ratio for the New Mexico Community Development Loan Fund (The Loan Fund). He added the main reason for the waiver is growth in The Loan Fund’s assets, primarily related to origination of NMSBIC COVID-19 Lending Program loans. It was noted that The Loan Fund is taking actions to correct the matter which will require time to take effect. In previous meetings, the board indicated a preference to provide shorter-term waivers, and to monitor the situation. Mr. Cummins provided information on actions being taken by The Loan Fund, which include working to increase Equity Equivalent (EQ2) funding from banks, increasing rates on new loans, and implementing an origination fee on new loans. Mr. Cummins referred to an updated financial statement recap in the board package for The Loan Fund with results from its September 30, 2024, unaudited financial statements.

Mr. Cummins said The Loan Fund has a new \$1 million EQ2 loan, and a \$20,000 contribution, in-process with a bank. When this funding is finalized, the NMSBIC board would need to approve including the new EQ2 funding as part of its net assets. Assuming it were approved, The Loan Fund’s Liabilities-to-Net Assets ratio would drop to about 17-to-1, which would be below the NMSBIC’s 24-to-1 requirement. He recommended extending the waiver for The Loan Fund’s Liabilities-to-Net Assets ratio through February 28, 2025.

Treasurer Montoya noted that The Loan Fund has increased the interest rate it charges its borrower and asked about the impact on small businesses. Mr. Cummins responded that The Loan Fund’s interest rate of 6.0% to 7.5% is a little lower than where its rates have been historically. Prior to the pandemic, The Loan Fund was originating loans at 8.0%. Interest rates to borrowers were lowered to 3.75% to 4.75% during the

pandemic and appear to be returning closer to where they have been historically. He added that because loan balances are typically lower than what traditional banks do, and because CDFI's provide technical assistance to small businesses which is costly, most CDFI's only cover a portion of their overhead with interest income, and many rely on grants and contributions to make up the difference. If interest rates to borrowers were to remain lower, then most CDFI's would need to increase their grants and contributions to make up the difference. Mr. Cummins also noted that historically, CDFI interest rates have been a little higher than rates charged by traditional banks. That has been disrupted in the current higher rate environment but might return to normal as interest rates come back down. The CDFIs provide more hands-on service than banks, which justifies a rate that is a little higher than bank interest rates. Also, if CDFI rates are a little higher than bank interest rates, it gives borrowers an incentive to obtain traditional bank financing when they become eligible, which means CDFIs are not competing with banks based on interest rate. Mr. Cummins said support from the banking community is important to CDFIs related to loan referrals from banks, as well as bank EQ2 loans and charitable contributions. He believes it's important to have support from the banking community and to not compete with banks.

Mr. Cummins added that the NMSBIC does not set the interest rates that CDFI's charge their borrowers. An exception was with the NMSBIC's COVID-19 Lending Program, but that program has ended, and no new COVID-19 Lending Program loans are being originated. The CDFIs have full discretion over what loans they approve, and the interest rates they charge.

Treasurer Montoya asked if the NMSBIC's lending partners are anticipating any impact on loan performance related to possible changes from the incoming administration at the national level. Mr. Cummins said he has heard that federal grants related to renewable energy might be cut back. He said he would ask lending partners about any other impacts they might be aware of or be preparing for.

Treasurer Montoya said if The Loan Fund has reached a capacity limit, is that telling us there is a need for more funding? Chair Smith responded that The Loan Fund's assets have been growing, but net assets have not been growing at the same level. The ratio between assets and net assets is to provide a sufficient buffer for things such as operational risks including loan losses. Chair Smith added that The Loan Fund is providing great support to New Mexico Small Businesses. Mr. Cummins said the NMSBIC currently has \$37.5 million committed to The Loan Fund. The Loan Fund's lending capital strategy is for NMSBIC funding to increase to \$70 million. However, The Loan Fund's current level of net assets doesn't support that level of growth, and additional net assets will be needed. He said there is a need for more funding for net assets for The Loan Fund and other New Mexico based CDFIs, which typically comes from grants and contributions. He added that the NMSBIC can't provide grants or contributions to CDFIs.

Treasurer Montoya asked if any other state has done anything creative to allow for growth in the net assets of CDFIs. Mr. Cummins said he had seen something proposed in Connecticut or Pennsylvania where there was a proposal to provide \$100 million in loan funds, plus \$20 million in grant funds, to local CDFIs. Mr. Cummins said he would follow up on that. Mr. Cummins added that it's his understanding the anti-donation clause creates an obstacle regarding use of state funds in New Mexico for grants or contributions to CDFIs.

Chair Smith asked if there might be an opportunity for the NMSBIC to make equity investments in CDFIs, which is what the bank EQ2 funding and the US Treasury grants have been doing. If you look at DreamSpring and Ventana Fund, there has been significant investment from the US Treasury. He added that EQ2 loans are difficult for banks, because they sit on the balance sheet, and they are complicated. An equity investment could benefit an organization like The Loan Fund that is constrained by the leverage ratio, but not by the demand for their loans.

Ms. Alley asked about the risk. She said if a lending partner is getting a little out over their skis, then maybe tapping the brakes isn't such a bad thing. Treasurer Montoya added that we don't want to get in over our heads, resolving one problem but creating a new problem, and having higher risk than anticipated. Chair Smith noted if a lending partner's loan losses are greater than their allowance, the losses will hit the balance sheet very quickly.

Ms. Beckett said it's important that we be active in a situation like this, where the NMSBIC is custodian of the funds. She noted The Loan Fund has been having conversations with several banks. She questioned why only one bank has stepped up with \$1 million in EQ2 funding. She said she believes the NMSBIC has a responsibility to play an active role in resolving this over the long run.

**Ms. Yamada moved for the NMSBIC board of directors to approve a modification of the line of credit with the New Mexico Community Development Loan Fund to:**

- **Provide a temporary waiver of the Liabilities to Net Assets Ratio covenant through February 28, 2025, and**
- **That the NMSBIC's board chair and president, or vice chair and vice president, be authorized to sign any all documents related to this change, 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.**

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

## **NEW MEXICO LEGISLATIVE FINANCE COMMITTEE – INFORMATION REQUEST**

Mr. Cummins said he and Chair Smith had a meeting with Jon Clark, State Investment Officer. In that meeting, Mr. Clark said there had been discussion at a recent Legislative Finance Committee (LFC) meeting about cutting back on funding for Economically Targeted Investments (ETIs) in New Mexico. Chair Smith and Mr. Cummins then had a separate meeting with Ismael Torres, LFC chief economist, and Brendon Gray, LFC economist. LFC staff indicated the Severance Tax Permanent Fund (STPF) has a target return of 6.75%, and that returns on the STPF are lower than benchmark returns because of STPF allocations for ETIs, including the allocation to the NMSBIC. Mr. Cummins said the NMSBIC typically earns about 2% on its lending program loans, which is below the STPF target return of 6.75%. LFC staff indicated it is working on proposed legislation to lessen the impact of ETIs on the STPF over time. In the long run, LFC would like STPF returns to improve, and to offset expected future declines in oil and gas revenues. In the discussion, LFC staff:

- Indicated it plans to propose a \$40 million annual cap on funding provided to NMSBIC.
- Will propose giving the State Investment Council (SIC) authority to determine the amount of NMSBIC funding, up to \$40 million annually.
- Asked the NMSBIC to provide a 5-year asset projection. Mr. Cummins has completed a projection, which is included in the board package.
- Asked if it would make sense for the NMSBIC to update the impact analysis done by the Bureau of Business and Economic Research (BBER) in 2017. Mr. Cummins noted there is a separate item on the agenda to discuss the BBER impact analysis.
- Suggested that the NMSBIC's Net Excess Funds requirement be included in a possible legislative change, and perhaps the Net Excess Funds requirement be removed.
- Suggested adding qualification requirements for NMSBIC board members, and asked for NMSBIC feedback.

Treasurer Montoya provided history regarding qualification requirements for public board members. She said this type of proposed change would never pass and believes it would be a waste of time to consider it.

Treasurer Montoya said she didn't know where discussion regarding the STPF target return was coming from. She said she would be interested to learn who was behind the proposed change. She said the return provided by NMSBIC is different type of return. The NMSBIC's purpose is to invest in people, in businesses, in housing, and things like that. We should include the impact and value of what we have been able to accomplish by having all these extra businesses, and the number of people they employ, the property taxes, and gross receipts taxes.

Treasurer Montoya added that SIC doesn't have the skill set to provide oversight of the NMSBIC. Their skill set is to make traditional investments, and they're brilliant at it. But that has nothing to do with what the NMSBIC does.

Treasurer Montoya said she is absolutely opposed to a \$40 million annual cap on the NMSBIC's funding, and if anything, we should support a \$40 million minimum. Chair Smith asked what if, in the future, the NMSBIC's current funding formula results in \$60 million, or \$80 million in annual funding? Treasurer Montoya said LFC staff are proposing the NMSBIC's funding be decreased. There's a possibility we will keep growing and can match up to \$80 million in funding in the future.

Ms. Yamada said she had the opportunity to ask LFC Chairman Senator Muñoz about this, and he indicated he was not aware of the proposed change. She said she would like to understand more about who is behind the proposed changes. Treasurer Montoya said there is a meeting scheduled for this afternoon with her, Jon Clark, State Investment Officer, John Bingaman, SIC member, Chair Smith, and Mr. Cummins. Treasurer Montoya said it would be helpful to know who is behind this, and if the idea is coming from LFC staff or from someone else.

Ms. Alley agreed it would be helpful to know the genesis of the proposed changes. Treasurer Montoya said at the end of the day, any NMSBIC funds not invested in loans are being invested in the Local Government Investment Pool (LGIP) or with the SIC. Because of the Net Excess Funds requirement, interest on those investments is going back to the STPF, and SIC is diversifying its portfolio. She asked if control were given to SIC, what is the point of having an NMSBIC board of directors? Treasurer Montoya said based on her review of SIC reports, the 5-year return on the STPF didn't appear to be out of line with benchmark returns.

Chair Smith asked if there is a motion to approve the proposed resolution page 55 in the board package, with changes that have been discussed.

**Treasurer Montoya moved to approve the proposed resolution on page 55 of the board package as follows:**

- **Resolved, that the Board of Directors of NMSBIC opposes changes to the NMSBIC governing legislation, including negative changes to NMSBIC's statutory funding allocation, which would have an adverse impact on the organization's abilities to positively impact and support the growth of New Mexico small businesses; and it is further**
- **Resolved, that the Chair and Executive Director of the NMSBIC be, and hereby are authorized and directed to meet with state legislators, other state officials, and stakeholders to emphasize the important role of NMSBIC in the growth of**

**the New Mexico economy, its proven abilities and future expectations in the deployment of capital in support of New Mexico small business, and the need for continued and stable funding;**

**Treasurer Montoya added to the resolution as follows:**

- **Resolved, that the NMSBIC board of directors supports a minimum of \$40 million in annual funding, and the NMSBIC does not support any oversight other than what is already in place, and that the board does not support any changes regarding board member qualifications.**

**Ms. Yamada seconded the motion, which passed by unanimous roll call vote.**

Mr. Valdiviez and Ms. Beckett left the meeting at 11:00 am.

#### **BUREAU OF BUSINESS AND ECONOMIC RESEARCH, IMPACT STUDY UPDATE**

Mr. Cummins said he met with Julian Baca at the UNM Bureau of Business and Economic Research (BBER) about updating the NMSBIC impact study done by BBER in 2017. Mr. Baca has provided a Scope of Work (SOW) that proposes (1) an update of the impact study done in 2017, and (2) a fiscal impact analysis showing the amount of income tax, property tax, and gross receipts tax paid to the State. If the NMSBIC board approves the SOW, the next step is for BBER to provide a cost estimate.

Chair Smith asked about the term covered by a fiscal impact analysis, and if it would provide an annual number, or a net present value for a new job? Mr. Cummins said he would ask BBER to provide more information about the fiscal impact analysis. Ms. Alley suggested getting a sample report from BBER. Chair Smith said he would also like to see something in the report about housing. Mr. Cummins said housing was addressed in the 2017 report for the NMSBIC's funding provided to the New Mexico Mortgage Finance Authority (MFA), and the 2017 impact study reported constructions jobs created by the MFA's housing construction projects. Chair Smith said he would also be interested in information on education and funding of charter school construction. Chair Smith asked Mr. Cummins to let BBER know the NMSBIC would like to use a fiscal impact analysis in discussions regarding the NMSBIC's total return on investment, and to see if BBER can help us with that.

**Ms. Alley moved that the NMSBIC board of directors approve the Scope of Work (SOW) from the Bureau of Business and Economic Research (BBER) to provide an update of the 2017 NMSBIC Impact Analysis Report, and a Fiscal Impact Analysis. Upon approval of the SOW, BBER will provide a cost proposal to the NMSBIC. No legally binding obligation is created or implied and none will exist unless and until a Professional Services Agreement in final form is executed and delivered by the parties. Ms. Yamada seconded the motion, which passed by unanimous roll call vote.**



## **EXECUTIVE DIRECTOR/INVESTMENT ADVISOR REPORT**

Mr. Cummins noted:

- The NMSBIC passed the \$100 million mark for outstanding loans in September.
- The NMSBIC finalized and signed loan documents with B:Side Fund for a \$500,000 line of credit to be used for small business loans. B:Side Capital indicated it is taking time to implement its SBA Community Advantage program in New Mexico and believes it will be ready to move forward with the separate \$500,000 Community Advantage line of credit in 2025.
- DreamSpring held its 30<sup>th</sup> anniversary celebration in November. The event was well attended. Mr. Cummins said he attended, and was joined by Chair Smith, Ms. Beckett, and Mr. Garduño.
- Enchantment Land Community Development Company (ELCDC) is still working to implement its SBA Community Advantage program and believes it will be ready soon to move forward with an NMSBIC line of credit. ELCDC noted it has delayed signing NMSBIC loan documents because of language in our loan documents indicating if NMSBIC funds are not deployed, NMSBIC has the right to reduce the level of funding provided.
- Amendment documents for direct loan Company A have been signed. The amendment provided (1) a waiver for this year's annual audit, (2) approval of up to \$375,000 in debt that is senior to the NMSBIC's loan, and (3) approval of up to \$6 million in debt that is subordinate to the NMSBIC's loan.
- Treasurer Montoya was the keynote speaker at November's New Mexico Impact Investing Collaborative (NMIIC) annual meeting and did an outstanding job. Mr. Cummins said he served on a panel at the meeting that discussed impact investing in New Mexico.
- The NMSBIC is continuing discussions about a possible line of credit with Native Partnership for Housing.
- Mr. Valdiviez and Mr. Cummins attended a follow-up meeting with Todd Clarke and Keith Flynn regarding plans for a new CDFI, Hexagon Housing Fund, which will focus on developing housing around New Mexico's military bases.
- Chair Smith and Mr. Cummins met with Adrian Ruiz, of Raza Fund. Raza Fund is a CDFI that makes small business loans, charter school loans, and loans for medical facilities in targeted areas. Mr. Cummins noted that when he made a presentation to the Investments and Pensions Oversight Committee (IPOC) in August, a committee member highlighted the need for funding for medical facilities in New Mexico. Mr. Ruiz said he thought Raza Fund might be able to deploy \$10-\$20 million of NMSBIC funds over the next 1-2 years.
- Chair Smith and Mr. Cummins had a meeting with Ryan Decker and Rick Herman of the New Mexico Finance Authority (NMFA). NMFA has approved \$10 million in Equity Equivalent (EQ2) type funding for the New Mexico Climate Investment Center (NMCIC). EQ2 funding is long-term subordinated debt with preferential terms. It is not an equity investment but has characteristics of an equity

- investment. However, NMFA cannot provide more than 51% of a borrower's total capital, and NMCIC will need to raise additional funding in order to access the funding from NMFA. Ms. Decker asked if the NMSBIC might consider providing EQ2 type funding to NMCIC, on a pari passu basis with NMFA. Beth Beloff, NMCIC's CEO is planning to make a presentation at the NMSBIC's board meeting in February. Mr. Cummins noted there is an item in the NMSBIC's Take-Away Report regarding a recommendation for the NMSBIC's concentration in equity investments. Mr. Cummins said the NMSBIC might consider investing a small percentage of its total assets in EQ2 type funding for CDFIs or non-profit lenders. Ms. Alley asked about the NMSBIC's track-record requirement. Mr. Cummins said NMCIC is planning to partner with a lender such as DreamSpring or Homewise to originate loans, and those partners would meet the track-record requirement. Chair Smith said he likes how we have talked about being creative, and trying to find new lending partners, and deploying funds in a responsible way. Ms. Alley said she thinks it might be OK to take some measured risks from time to time. Ms. Yamada said she was aware of the funds allocated for NMCIC, but it was her understanding the funds would be used for residential properties. Mr. Cummins said NMCIC has indicated it will be making loans to consumers and small businesses, but we will need more detail about the types and volume of small business loans. Treasurer Montoya added there have been problems with using property taxes to fund solar improvements. So long as there is nothing predatory and it not part of the property tax bill, then she would be open to it.
- Mr. Cummins highlighted page 90 in the board package, showing the estimated contribution this year to the NMSBIC from the Severance Tax Permanent Fund is roughly \$28 million, which should be received in February or March 2025.

### **NMSBIC FACT SHEET**

Mr. Cummins said that when Ms. Yamada attended her Senate Confirmation hearing last year to confirm her appointment as an NMSBIC director, committee members said there was no information in their package about the NMSBIC. He noted that Ms. Alley and Mr. Grassham will be having Senate Confirmation hearings in the upcoming 2025 New Mexico Legislative Session. He has developed an NMSBIC Fact Sheet that can be provided by Ms. Alley and Mr. Grassham with their confirmation packages. Mr. Yamada suggested adding the chart showing loans by county and the original sponsor and bill number of the Small Business Investment Act.

### **BOARD CONTINUING EDUCATION**

Mr. Cummins highlighted pages in the board package with the NMSBIC's updated business continuity plan, the recent plan test, and updated information for key contacts.

**NMSBIC PROPOSED MEETING SCHEDULE FOR 2025**

Mr. Cummins said that, unless there are any changes, the NMSBIC board meeting schedule for 2025 will be as follows. All meetings are scheduled to commence at 9:00 am. The meeting place will be announced prior to the meeting.

- Friday, February 21, 2025
- Friday, April 18, 2025
- Friday, June 20, 2025
- Friday, August 15, 2025
- Thursday, September 18, 2025 (Limited Agenda, Call-In Meeting)
- Friday, October 17, 2025
- Thursday, December 11, 2025

**BOARD CONTINUING EDUCATION**

Mr. Cummins referred to the NMSBIC’s funding legislation, NMSA 7-27-5.15, which has been provided for the board to review. He said he included this for review given discussions about the Legislative Finance Committee’s proposed changes to the NMSBIC funding legislation. He highlighted relevant sections in the legislation.


**CHAIR’S COMMENTS**

Chair Smith thanked everyone for attending the meeting and for the fantastic conversation and support.

**ADJOURNMENT**

Treasurer Montoya moved to adjourn at 11:58 a.m. Ms. Alley seconded the motion, which passed unanimously by roll call vote.

**ADJOURNMENT: 11:58 a.m.**

  
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Joshua Smith, Board Chair

2/21/25  
\_\_\_\_\_  
Date