

SIC approves creation of \$100 million NM recovery fund

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As much as \$100 million from one of New Mexico's permanent funds will be made available for business loans under a New Mexico Recovery Fund approved Tuesday by the State Investment Council. Pictured is the Nob Hill area in Albuquerque. (Roberto E. Rosales/Albuquerque Journal)

SANTA FE — The New Mexico State Investment Council voted unanimously Tuesday to immediately pump up to \$100 million from one of the state's large permanent funds into a newly-formed New Mexico Recovery Fund, which will provide discounted, short-term loans to businesses struggling to stay afloat during the coronavirus crisis.

Gov. Michelle Lujan Grisham, who chairs the investment council, urged the SIC to act quickly, saying many businesses are reaching the "breaking point" due to state-mandated closures in an attempt to slow the spread of the novel coronavirus.

"We're besieged by calls," Lujan Grisham said during Tuesday's meeting, which was conducted by phone. "...None of us know how the next days and weeks will look, but we need to act on two fronts: to protect our citizens — which we're doing as much as we can to mitigate the consequences from the coronavirus — and to recognize our obligation to do all we can to support our businesses."

“They and their employees are in an incredible situation,” she added. “They’re in dire straights.”

The new loan program, funded by the \$5 billion Severance Tax Permanent Fund, is one of several economic relief initiatives being crafted by state leaders in an attempt to help businesses stay afloat during the COVID-19 outbreak.

A federal aid package is also being debated in Congress, though it’s unclear how much money New Mexico might receive, Lujan Grisham said Tuesday.

Meanwhile, the money for the new fund will be channeled through the SIC’s private equity investment program, which currently can spend up to 9% of the Severance Tax Permanent Fund for investments in venture funds that invest in local businesses, and for direct investments in startup companies in New Mexico.

The state Legislature approved an increase this year to 11% for spending on the private equity program, making more money available for initiatives like the new recovery fund.

But it’s the first time the SIC has approved money for a loan, or debt-based, fund rather than for venture investments in companies, reflecting the gravity of the crisis and the urgency to act immediately.

Sun Mountain Capital in Santa Fe, which manages the SIC’s direct private equity investments in companies, will also manage the new fund. It will draw up the statutes and guidelines for the fund in the next two weeks, including the size of companies that will be eligible for loans, the requirements they must meet to receive money, and all terms and conditions, such as interest rates and repayment timeframes.

Loans will be targeted at medium and large-sized companies, probably those with 40 to 50 employees and up that are already generating about \$10 to \$15 million in annual revenue and who are unlikely to survive the crisis with immediate cash assistance, said Sun Mountain Managing Partner Brian Birk.

Loans will be made at “differential,” or discounted, below-market rates, although those rates and other terms must be still be approved by the council in another vote in two weeks.

Some council members questioned the initial proposal of 6% to 12% interest rates as far too high, and they questioned whether \$100 million is enough to mitigate the impacts of the crisis.

SIC member Linda Eitzen questioned whether it’s the investment council’s job to react in economic crises, citing a fiduciary duty to protect the funds for future generations.

“We don’t even really know what the terms are yet because it’s a work in progress,” Eitzen said.

However, Eitzen ultimately voted in favor of creating the new fund, saying it could benefit businesses during an unprecedented time.