FISCAL IMPACT REPORT

SPONSOR	Sens. Muñoz, Sharer, Woods, and Stefanics/Rep. Herndon	**LAST UPDATED**	
		ORIGINAL DATE	2/16/25
SHORT TITLE	Medicaid Trust Fund & State Supported Fund	**BILL NUMBER**	Senate Bill 88
		ANALYST	Chenier/Graeser/Torres

APPROPRIATION*
(dollars in thousands)

FY25	FY26	Recurring or Nonrecurring	Fund Affected
$300,000.0		Nonrecurring	General Fund

Parentheses ( ) indicate expenditure decreases.
*Amounts reflect most recent analysis of this legislation.

REVENUE*
(dollars in thousands)

Type	FY25	FY26	FY27	FY28	FY29	Recurring or Nonrecurring	Fund Affected
Reversions		($100,000.0)	($100,000.0)	($100,000.0)	($100,000.0)	Recurring for 6-Years	General Fund
STO Earnings		($279,700.0)	($262,800.0)	($264,900.0)	($267,800.0)	Recurring for 6-Years	General Fund
Reversions and earnings		$379,700.0	$362,800.0	$364,900.0	$367,800.0	Recurring	Medicaid Trust Fund

Parentheses ( ) indicate revenue decreases.
*Amounts reflect most recent analysis of this legislation.

Sources of Information

LFC Files
SIC Analysis

<u>Agency Analysis Received From</u>
Health Care Authority (HCA)
State Investment Council (SIC)
Department of Finance and Administration (DFA)
State Treasurer (STO)

SUMMARY

Synopsis of Senate Bill 88

Senate Bill 88 (SB88) creates a new Medicaid trust fund, which would be seeded with a $300 million appropriation from the general fund. The new Medicaid trust fund would also receive revenues from state agency reversions, unexpended/unencumbered balances from prior year general appropriation acts, and interest earnings on state treasury balances, until the fund reaches $2 billion.

Additionally, the Medicaid trust fund would receive all reversions from general fund capital outlay appropriations made between 2021-2024 that have not already reverted to the general fund before the bill's effective date.

The bill also creates the state-supported Medicaid fund. Starting in FY30, the Medicaid trust fund will make annual distributions to the state-supported Medicaid fund, which would be administered by the Health Care Authority (HCA) and available for appropriation by the Legislature to support and match federal funds for the state Medicaid program. Distributions would not be made until balances in the trust fund reach at least $500 million and appropriations could be made for any purpose in the event that federal matching funds decrease by 7.5 percent from the prior year or are less than a 1-to-1 federal to state match.

This bill does not contain an effective date and, as a result, would go into effect 90 days after the Legislature adjourns if enacted, or June 20, 2025.

FISCAL IMPLICATIONS

The appropriation of $300 million contained in this bill is a nonrecurring expense to the general fund, assumed to be deposited in June 2025, based on the timing of the effective dates and the timing of other similar deposits made in recent years to other funds. This bill creates new funds which are self-earning investment accounts. The bill does not include a recurring appropriation but diverts or "earmarks" revenue, representing a recurring loss from the general fund.

However, based on the introduced version of the General Appropriation Act, and the Legislative Finance Committee and executive budget recommendations, there will be insufficient funds in the general fund in FY25 to provide for this appropriation. This appropriation will likely over encumber the general fund appropriation account and create an irreconcilable deficit under current law. It is unclear if the full amount will be transferred due to the lack of sufficient funds and current statutory requirements for the availability of funds before distribution. To preserve the state's constitutional mandate to maintain a balanced budget, a new source of funds will need to be identified for the trust.

Because distributions would not be made to the program fund until at least FY30 there is not an immediate fiscal impact to the Medicaid program. However, the bill would act as a failsafe in the event federal financial participation were to significantly decrease.

The State Investment Council (SIC) provided the following:

> ***Medicaid Trust Fund Revenues.*** The bill provides several recurring sources of revenue into the Medicaid trust fund:
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> 1. *State Agency Reversions.* Section 3 of the bill redirects state agency reversions from the general fund to the Medicaid trust fund, until the balance of the Medicaid trust fund reaches $2 billion. Reversions over the last 5 years have ranged from $81 million to $310 million. The December 2024 consensus revenue estimate projects reversions to be $100 million each year from FY25- FY29. Therefore, the estimated fiscal impact of this provision is a general fund cost of $100 million/year and an Medicaid trust fund inflow of $100 million/year, until the Medicaid trust fund reaches $2 billion.
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> 2. *State Treasury Earnings.* Section 4 of the bill redirects treasury earnings from the

general fund to the Medicaid trust fund until the balance of the Medicaid trust fund reaches $2 billion. Since treasury earnings accrue to the general fund monthly, and since the effective date of this bill is assumed to be June 20, 2024, there is minimal expected impact on FY25. The December 2024 consensus revenue estimate includes the following estimates for general fund revenues from state treasury earnings:

FY26	FY27	FY28	FY29
$279.9 million	$262.8 million	$264.9 million	$267.8 million

The above table reflects the annual cost to the general fund, and annual inflow to the Medicaid trust fund, for each fiscal year in which the Medicaid trust fund is below $2 billion.

While the treasury return estimates are positive, it is important to note this is not always the case. For example, in FY22, treasury balances lost a total of $118.6 million due to market conditions at the time. Additionally, while total earnings over the fiscal year can be positive, earnings for a particular month during the fiscal year may be negative. For example, there has been at least one month of negative earnings in every one of the last five fiscal years – those monthly losses ranged from $222 thousand to nearly $48 million.

This bill would require all earnings, including realized and unrealized gains <u>and losses</u>, to be credited to the Medicaid trust fund. It is unclear exactly how the Medicaid trust fund would absorb losses on treasury earnings. Presumably, the Medicaid trust fund would have to make a transfer to the state treasury for each month in which treasury earnings were negative. Additionally, it is possible the Medicaid trust fund could experience its own market losses at the same time as the state treasury, increasing the Medicaid trust fund's risk exposures and complicating the fund's optimal asset allocation.

3. *Unspent Recurring Appropriations.* At the end of each fiscal year, Section 5(A)(1) of the bill transfers 1 percent of all unexpended/unencumbered balances of recurring appropriations for state agency operating budgets from the prior year's general appropriation act to the Medicaid trust fund. This transfer would only occur until the balance of the Medicaid trust fund reaches $2 billion.

   SIC staff are unable to estimate how much revenue this provision could send to the Medicaid trust fund, but it is reasonable to assume it could result in tens of millions of dollars to the trust fund.

4. *Unspent Nonrecurring General Fund Appropriations*. At the end of each fiscal year, Section 5(A)(2) of the bill transfers all unexpended/unencumbered balances of all other general fund appropriations from the prior year's general appropriation act to the Medicaid trust fund, not including appropriations made to nonreverting funds. This transfer will only occur until the balance of the MTF reaches $2 billion.

SIC staff are unable to estimate how much revenue this provision could send to the Medicaid trust fund, but it is reasonable to assume it could result in tens to hundreds of millions of dollars to the trust fund.

5. *Unspent General Fund Capital Outlay.* Section 5(A)(3) of the bill reverts the unspent balances of general fund appropriations for capital outlay projects to the Medicaid trust fund, until the balance of the Medicaid trust fund reaches $2 billion.

   Sections 6-9 also directs unexpended balances from the capital outlay bills passed between 2021-2024 to revert to the Medicaid trust fund in accordance with the timeframes outlined in those bills.

   SIC staff are unable to estimate how much revenue this provision could send to the Medicaid trust fund, but it is reasonable to assume it could result in tens to hundreds of millions of dollars to the trust fund.

   The Medicaid trust fund is an interest-earning fund that would be invested by the State Investment Officer under supervision of the State Investment Council. The bill states the funds are to be managed in accordance with the Uniform Prudent Investor Act and in consultation with HCA.

SIGNIFICANT ISSUES

HCA states that Section 1.E of the bill allows for the general use of funds by HCA, conditional on a significant decrease in federal matching funds accruing to the state Medicaid program in a given fiscal year. Specifically, either a decrease of 7.5 percent or the federal match rate drops below a 1-to-1 federal-to-state ratio. For example, if the federal share in FY 2029 were $9 billion, a 7.5 percent decrease would be equivalent to a decrease of $675 million. A second example follows from the federal match percentage becoming less than or equal to the money appropriated by the legislature for the Medicaid program. The FY26 blended federal match percentage is 77.62 percent, the base rate of which gets adjusted annually based on how well the state is performing economically compared to the rest of the states.

SIC notes the following:

Expected long-term compound returns for funds under SIC's management range from 5.2 percent (Tax Stabilization Reserve) to 7 percent (the long-term return target for the land grant permanent fund). For 2025 and 2026, staff assume Medicaid trust fund returns are similar to that of the capital development and reserve fund (6.2 percent) because the two funds would have similar characteristics.[4] However, actual return expectations would ultimately depend on the fund's asset allocation.

The table above only assumes revenues from state treasury earnings, state agency reversions, and investment gains/losses, which are the only revenue sources for which SIC staff have estimates. Estimates for state treasury earnings and state agency reversions are derived from the December 2024 consensus revenue estimate and apportioned by calendar year in the table above. Estimates for investment gains/losses are derived using the long-term compound return assumptions described above.

Under these assumptions, both the balance of the Medicaid trust fund and the size of the distributions to the state-supported Medicaid fund have potential to grow over time. The Medicaid trust fund could reach the $2 billion threshold by FY29 and could potentially deliver over $70 million to the SSMF when it makes its first distribution in FY30.

Given the potential for the Medicaid trust fund to also receive revenues from unspent appropriations (which is not included in the analysis above), the $2 billion threshold could be reached sooner, and the state-supported Medicaid fund distributions could be higher, than the current estimate.

PERFORMANCE IMPLICATIONS

SIC notes:

Notably, SIC would need to make special considerations for this fund's asset allocation given the Medicaid trust fund will be exposed to the economic and market risk of state treasury investments. For example, the Medicaid trust fund could be required to make transfers to shore up state treasury losses at the same time in which the Medicaid trust fund is experiencing its own market losses. While SIC may try to mitigate these effects by diversifying the Medicaid trust fund asset allocation away from assets similar to those in the state treasury, there are practical limits to this approach, and certain economic events can still cause diversified assets to experience losses simultaneously. Therefore, regardless of asset allocation, the Medicaid trust fund would be exposed not only to the risks of its own investments but also the entirety of the risk, and reward, of state treasury investments.

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