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FISCAL IMPACT REPORT

SPONSOR <u>HAFC</u>	LAST UPDATED <u>3/12/2023</u>
	ORIGINAL DATE <u>3/3/2023</u>
SHORT TITLE <u>School Group Insurance Contributions</u>	BILL NUMBER <u>House Bill 533/HAFCS</u>
	ANALYST <u>Simon</u>

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT* (dollars in thousands)

	FY23	FY24	FY25	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
NMPSIA – public schools (current members)		\$17,503.0	\$18,553.2	\$36,056.2	Recurring	General Fund
NMPSIA – other entities education (current members)		Up to \$100.0	Up to \$100.0	Up to \$200.0	Recurring	Local Funds
NMPSIA – higher education (current members)		Up to \$2,000.0	Up to \$2,000.0	Up to \$4,000.0	Recurring	Local Funds
Albuquerque Public Schools		\$5,376.7	\$5,699.3	\$11,076.0	Recurring	General Fund
Total	\$0	\$24,979.7	\$26,352.5	\$51,332.2	Recurring	Local Funds

Parentheses () indicate expenditure decreases.

*Amounts reflect most recent analysis of this legislation.

Conflicts with House Bills 36 and 102
Relates to appropriation in the General Appropriation Act

Sources of Information

LFC Files

Responses Received From
Independent Community Colleges
Public School Insurance Authority
Public Education Department
New Mexico Tech

No Response Received
Albuquerque Public Schools
Higher Education Department
School for the Deaf

SUMMARY

Synopsis of HAFCS Substitute for House Bill 533

The House Appropriations and Finance Committee substitute for House Bill 533 would increase the required employer contributions for employee health insurance for school districts, charter schools, and participating entities in the Public School Insurance Authority (NMPSIA). Additionally, the bill would allow entities with available funding to cover up to 100 percent of the health insurance premiums.

The effective date of this bill is July 1, 2023.

FISCAL IMPLICATIONS

HB533/HAFCS changes the amount a public school employer, charter school employer, or other employer that participates in NMPSIA must pay toward an employee's health benefits coverage. The bill would require the employer to pay at least 80 percent of the premium for employees earning coverage less than \$50 thousand, at least 70 percent of the premium for those earning between \$50 thousand and \$60 thousand, and 60 percent of the premium for those earning \$60 thousand or more. The bill would also require public schools not participating in NMPSIA to cover the same percentages. Currently, only Albuquerque Public Schools (APS) does not participate in NMPSIA, although charter schools located in Albuquerque participate in the NMPSIA plans

Based on NMPSIA data, costs for school districts and charter schools participating in the authority would be \$17.5 million. Public schools in New Mexico are funded based on an equalized funding formula, known as the state equalization guarantee, which considers the number of students enrolled in each school district or charter school, with weighting factors for characteristics that increase costs, such as the number of special education students or small school size. To flow enough through the funding formula to ensure NMPSIA-covered entities receive sufficient funds to cover the costs of increased premiums, an additional \$5.4 million would need to be added to the funding formula to account for APS, for a total of \$22.9 million.

Analysis from PED notes HB533/HAFCS would impact the lowest paid public school employees, increasing take-home pay for those individuals. The department states 50 percent of public school employees currently make less than \$60 thousand and would be affected by the change. The department notes the bill could increase recruitment and retention of low-paid workers such as instructional assistants.

House Appropriations and Finance Committee substitute for House Bills 2 and 3 includes \$32 million to the state equalization guarantee distribution to cover the costs associated with HB533/HAFCS. Notably, this amount includes additional funding for school districts and charter schools to cover the costs of any additional members that choose to enroll in the school's insurance plan because employee costs are reduced.

Current law also allows higher education institutions to opt-into NMSPIA insurance coverage. Data from NMPSIA suggests costs for higher education could be up to \$2.2 million; however, this likely overstates the total cost to these institutions. Of the 11 higher education institutions

participating in NMPSIA, 10 currently pay more than the law requires to cover employee benefits and three, Luna Community College, Western New Mexico University, and Eastern New Mexico University Roswell currently cover 80 percent of all employee premiums. Unlike public schools, higher education institutions are not required to participate in NMPSIA.

SIGNIFICANT ISSUES

Public employee health benefits are provided through three agencies: General Services Department (GSD) for state employees, APS, and NMPSIA. This splintered system of providing health insurance benefits has led to different plan designs, costs, and employer and employee contribution rates. In the case of APS and NMPSIA, health benefit plans and rates are set by their respective boards while ultimate discretion for GSD rates resides with the executive. NMPSIA-covered employers pay the lowest employer contributions of the three plans as a result of both statutory constraint and local school board policy.

Under current law, there is significant inequity between public school employees and many other public employees in employer funding of health insurance benefits. Section 10-7-4 NMSA 1978 requires state agencies, boards, and commissions to pay more toward employee benefits than is required under the Public Schools Insurance Authority Act. Prior to FY05, state agencies covered the same percentage of health insurance premiums as public school employers but Laws 2004, Chapter 82 phased in an increase to the minimum percentage for state agencies, which the fiscal impact report for the bill notes was pursuant to a collective bargaining agreement between the American Federation of State, County and Municipal Employees (AFSCME), and the state. That law did not increase the employer contribution for public school employees, but allowed school districts, charter schools, and participating entities in NMPSIA could contribute up to 80 percent of the cost of insurance if the entity had sufficient revenue to do so. The bill would strike this 80 percent cap, allowing an employer to cover 100 percent of costs on a voluntary basis. Information from NMPSIA indicates 20 covered entities cover 80 percent of health insurance costs for all employees, while 26 other employers cover higher rates than required by law, but less than 80 percent for all employers.

OTHER SIGNIFICANT ISSUES

The Public School Insurance Authority Act was created to assist school districts statewide with procuring affordable health insurance benefits for employees, as well as property and liability insurance, at a time when many school districts struggled to find insurance coverage. All school districts, apart from Albuquerque Public Schools, are covered by NMPSIA and subject to the provisions of the Public School Insurance Authority Act. All charter schools, including state- and locally chartered charter schools in Albuquerque, are covered by NMPSIA.

Requiring schools to cover a higher share of benefits costs could limit the flexibility of local school districts and charter schools to set total compensation for school staff. The bill could result in shifting future compensation increases away from salary-based compensation toward benefits-based compensation. While health insurance benefits are a key factor in making a total compensation package attractive to employees, when costs rise too high, salaries may be less attractive than those at employers with less generous benefits packages.