LFC Requester:	Mercer-Garcia

AGENCY BILL ANALYSIS - 2025 REGULAR SESSION

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SECTION I: GENERAL INFORMATION

{Indicate if analysis is on an original bill, amendment, substitute or a correction of a previous bill}

Date Prepared: *Jan 22 2025*
Bill Number: *CS/HB 11/HCEDCS*

Check all that apply:
Original __ Correction __
Amendment __ Substitute _x

Sponsor: Sen. Stewart, Rep. Chandler Rep. Caballero
Short Title: Paid Family & Medical Leave Act

Agency Name and Code Number: 337 – State Investment Office
Person Writing Wollmann/Iglesias
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SECTION II: FISCAL IMPACT

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY27	FY28	FY29		
$27,448.2	**$193,042.2**	**$196,762.8**	Recurring	**Family Wellness Leave Fund** (contributions to fund from employers/employees)
	($74,964.6) to ($199,905.5)	($153,371.0) to ($408,989.3)	Recurring	**Family Wellness Leave Fund** (benefits paid)
$0.0	$0.0	$0.0	Recurring	**Welcome Child Fund**

(Parenthesis ( ) indicate revenue decreases)

SECTION III: NARRATIVE

BILL SUMMARY

Synopsis of HCEDC Substitute for HB11:

The House Commerce and Economic Development Committee substitute for HB11 seeks to create the Welcome Child and Family Wellness Leave Act (the "Act"), which establishing a state-administered paid leave program for eligible employees and self-employed individuals in New Mexico. The bill creates a Family Wellness Leave Fund and the Welcome Child Fund, both to be invested by the State Investment Officer, while monies in the funds are appropriated to the Workforce Solutions Department who will oversee the distribution of benefits.

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

FISCAL IMPLICATIONS

The bill provides the Family Wellness Leave Fund with a dedicated funding source of contributions from employers, employees, and voluntary self-employed individuals based on a percentage of wages. The estimates provided in the revenue tables above are from the LFC fiscal impact report dated 2/20/2025.

However, the bill does not provide any appropriation or dedicated funding source for the Welcome Child Fund. Presumably this fund would rely on future legislative appropriations.

Notably, the 2025 General Appropriations Act (HB2) as passed by the House includes a $35 million contingent appropriation to the "Paid Family and Medical Leave Fund", which is the fund originally created in HB11 before it was substituted by HCEDC. Since the HCEDC substitute for HB11 no longer creates that fund, HB2 will need to be amended if the funds created in this bill are to receive that appropriation.

The bill directs both the Family Wellness Leave Fund and the Welcome Child Fund to be invested by the State Investment Officer. However, both funds are expenditure funds appropriated directly to the Workforce Solutions Department to administer the Act, and the estimated annual expenditures from LFC's fiscal impact report suggests that much of the Family Wellness Leave Fund's revenues could be expended each year in benefits payments. Therefore, SIC would likely need to establish a joint powers agreement with WSD and the State Treasurer's Office (STO) to have the funds invested with the state treasury, which can better accommodate the short-term funding needs of expenditure funds. *[see Significant Issues]*

SIGNIFICANT ISSUES

Unlike other trust funds under the State Investment Council's management, this bill does not create a separate program/expenditure fund to which the Family Wellness Leave Fund or the Welcome Child Fund could make distributions. Instead, the entirety of the funds are appropriated to WSD and expenditures would be made directly from these funds.

Distributions from the trust funds the SIC invests typically occur once per year, and no other trust fund under SIC's management is a direct expenditure fund used for operational expenses. Infrequent and predicable distributions enables the SIC to invest in certain private asset classes (such as private equity, real estate, etc.) that can earn return premiums due in part to their illiquid nature – those dollars may be "locked up" for long periods of time, generally several years, and getting cash out of those allocations can be very expensive (e.g. forced selling at extreme discounts to market value).

Expenditure funds, on the other hand, often have greater liquidity needs and irregular withdrawals, which will likely not allow the State Investment Officer to invest with a long-term horizon, thereby limiting the menu of investment options to short-term securities typically best-suited for short-term management offered by the State Treasurer.

ADMINISTRATIVE IMPLICATIONS

SIC will likely need to establish a joint powers agreement with WSD and STO to have the funds invested with the state treasury, which can better accommodate the short-term funding needs of expenditure funds.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

HB2, as passed by the House, includes a $35 million contingent appropriation to the "Paid Family and Medical Leave Fund", which is the fund originally created in HB11 before it was substituted by HCEDC. Since the HCEDC substitute for HB11 no longer creates that fund, the appropriation currently in HB2 is to a fund that would not exist.

TECHNICAL ISSUES

The investments managed by the State Investment Officer and overseen by the State Investment Council are invested through a unitized system of investment pools, which allows many investment accounts to access exposures to individual investments. This structure assists with sought-after broad portfolio diversification but is also limited in that the SIC only has a <u>monthly</u> liquidity window for deposits and withdrawals.

If due to unforeseen circumstances Workforce Solutions needed to call capital rapidly to disburse payments for Act recipients during the middle of any month, the SIC would not be able to accommodate such a request until the reopening of the rebalancing window at month's end.

ALTERNATIVES

For the reasons detailed above, SIC staff recommend the bill be amended to remove investment management responsibility from the State Investment Officer (which effectively would place investment management responsibility with STO) or be restructured to create a long-term trust fund for SIC investment that could make annual distributions to the Family Wellness Leave Fund and/or Welcome Child Fund.