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| <b>LFC Requester:</b> | <b>Chenier</b> |
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**AGENCY BILL ANALYSIS - 2025 REGULAR SESSION**

**WITHIN 24 HOURS OF BILL POSTING, UPLOAD ANALYSIS TO**

**[AgencyAnalysis.nmlegis.gov](http://AgencyAnalysis.nmlegis.gov) and email to [billanalysis@dfa.nm.gov](mailto:billanalysis@dfa.nm.gov)**

*(Analysis must be uploaded as a PDF)*

**SECTION I: GENERAL INFORMATION**

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

**Date Prepared:** 1/22/25 *Check all that apply:*  
**Bill Number:** SB 1 Original  Correction   
 Amendment  Substitute

**Sponsor:** Munoz, Stefanics, Woods **Agency Name and Code** 337 – State Investment Council  
**Short Title:** Behavioral Health Trust Fund **Number:** \_\_\_\_\_  
**Person Writing** Iglesias  
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**SECTION II: FISCAL IMPACT**

**APPROPRIATION (dollars in thousands)**

| Appropriation |      | Recurring or Nonrecurring | Fund Affected |
|---------------|------|---------------------------|---------------|
| FY25          | FY26 |                           |               |
| \$1,000,000.0 |      | Nonrecurring              | General Fund  |

(Parenthesis ( ) indicate expenditure decreases)

**REVENUE (dollars in thousands)**

| Estimated Revenue |      |              | Recurring or Nonrecurring | Fund Affected                  |
|-------------------|------|--------------|---------------------------|--------------------------------|
| FY25              | FY26 | FY27         |                           |                                |
| \$1,000,000.0     |      |              | Nonrecurring              | Behavioral Health Trust Fund   |
|                   |      | (\$51,300.0) | Recurring                 | Behavioral Health Trust Fund   |
|                   |      | \$51,300.0   | Recurring                 | Behavioral Health Program Fund |

(Parenthesis ( ) indicate revenue decreases)

**ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)**

|              | FY25  | FY26 | FY27 | 3 Year Total Cost | Recurring or Nonrecurring | Fund Affected |
|--------------|---|------|------|-------------------|---------------------------|---------------|
| <b>Total</b> | This bill will require additional time from investment, accounting, and administrative staff; see administrative implications |      |      |                   | Recurring                 | LGPF/STPF     |

(Parenthesis ( ) Indicate Expenditure Decreases)

## **SECTION III: NARRATIVE**

### **BILL SUMMARY**

#### Synopsis:

Senate Bill 1 appropriates \$1 billion from the general fund to a newly created Behavioral Health Trust Fund (the “Trust Fund”), to be invested by the State Investment Officer according to the Uniform Prudent Investor Act and in consultation with the Health Care Authority (HCA).

The bill specifies that, for FY26 only, the balances of the Trust Fund are to be included in the calculation of state reserves.

Beginning July 1, 2026 (FY27) the Trust Fund will make annual distributions of 5 percent of a rolling 3-year average market value of the Trust Fund to a newly created Behavioral Health Program Fund (the “Program Fund”). The Program Fund will be administered by the HCA, subject to appropriation by the Legislature, to provide money for services and programs related to behavioral health. Any unexpended/unencumbered balances at the end of a fiscal year will revert to the Trust Fund.

This bill has no effective date; the assumed effective date is 90 days following the end of the session (June 20, 2025).

### **FISCAL IMPLICATIONS**

The new Trust Fund is seeded with a \$1 billion appropriation from the general fund, assumed to be deposited in June 2025. The first distribution from the Trust Fund to the Program Fund would occur in FY27.

The table below provides a simplified example of potential investment returns for the Trust Fund and subsequent distributions to the Program Fund.

| <b>Behavioral Health Trust Fund (\$millions)</b> |                          |                      |                           |                |                       |                        |
|--|--------------------------|----------------------|---------------------------|----------------|-----------------------|------------------------|
| <b>Calendar Year</b>                             | <b>Beginning Balance</b> | <b>Contributions</b> | <b>Gains &amp; Losses</b> | <b>Distrib</b> | <b>Ending Balance</b> | <b>YOY Fund Growth</b> |
| 2025   | \$0.0                    | \$1,000.0            | \$26.0                    | \$0.0          | \$1,026.0             |                        |
| 2026   | \$1,026.0                | \$0.0                | \$52.0                    | -\$51.3        | \$1,026.7             | 0.1%                   |
| 2027   | \$1,026.7                | \$0.0                | \$70.1                    | -\$51.3        | \$1,045.5             | 1.8%                   |
| 2028   | \$1,045.5                | \$0.0                | \$71.4                    | -\$51.6        | \$1,065.2             | 1.9%                   |
| 2029   | \$1,065.2                | \$0.0                | \$72.7                    | -\$52.3        | \$1,085.7             | 1.9%                   |
| 2030   | \$1,085.7                | \$0.0                | \$74.1                    | -\$53.3        | \$1,106.5             | 1.9%                   |
| 2031   | \$1,106.5                | \$0.0                | \$75.6                    | -\$54.3        | \$1,127.8             | 1.9%                   |
| 2032   | \$1,127.8                | \$0.0                | \$77.0                    | -\$55.3        | \$1,149.5             | 1.9%                   |
| 2033   | \$1,149.5                | \$0.0                | \$78.5                    | -\$56.4        | \$1,171.6             | 1.9%                   |
| 2034   | \$1,171.6                | \$0.0                | \$80.0                    | -\$57.5        | \$1,194.1             | 1.9%                   |
| 2035   | \$1,194.1                | \$0.0                | \$81.5                    | -\$58.6        | \$1,217.0             | 1.9%                   |
| 2036   | \$1,217.0                | \$0.0                | \$83.1                    | -\$59.7        | \$1,240.4             | 1.9%                   |
| 2037   | \$1,240.4                | \$0.0                | \$84.7                    | -\$60.9        | \$1,264.2             | 1.9%                   |
| 2038   | \$1,264.2                | \$0.0                | \$86.3                    | -\$62.0        | \$1,288.5             | 1.9%                   |
| 2039   | \$1,288.5                | \$0.0                | \$88.0                    | -\$63.2        | \$1,313.3             | 1.9%                   |
| 2040   | \$1,313.3                | \$0.0                | \$89.7                    | -\$64.4        | \$1,338.6             | 1.9%                   |

| <b>Distribution to Behavioral Health Program Fund (\$MM)</b> |                     |               |
|--|---------------------|---------------|
| <b>Fiscal Year</b>   | <b>Distrib Date</b> | <b>Amount</b> |
| FY25   | Jul-24              | \$0.000       |
| FY26   | Jul-25              | \$0.000       |
| FY27   | Jul-26              | \$51.300      |
| FY28   | Jul-27              | \$51.318      |
| FY29   | Jul-28              | \$51.637      |
| FY30   | Jul-29              | \$52.290      |
| FY31   | Jul-30              | \$53.272      |
| FY32   | Jul-31              | \$54.290      |
| FY33   | Jul-32              | \$55.333      |
| FY34   | Jul-33              | \$56.396      |
| FY35   | Jul-34              | \$57.480      |
| FY36   | Jul-35              | \$58.585      |
| FY37   | Jul-36              | \$59.711      |
| FY38   | Jul-37              | \$60.858      |
| FY39   | Jul-38              | \$62.028      |
| FY40   | Jul-39              | \$63.220      |

Expected compound returns for funds the Council manages 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 Trust Fund returns are similar to that of the Tax Stabilization Reserve because the bill designates the fund must be included in reserve calculations for FY26. For 2027 and beyond, staff assume a 7 percent annual return for the purpose of this analysis, since the proposed Trust Fund makes consistent annual distributions based on a rolling average market value and has no other provisions to shore up general fund budgets in the event of a fiscal deficit. However, actual return expectations would ultimately depend on the fund's asset allocation.

Under these assumptions, both the balance of the Trust Fund and the size of the distributions to the Program Fund have potential to grow over time.

## **PERFORMANCE IMPLICATIONS**

The State Investment Officer, with the approval of the State Investment Council would manage the Trust Fund in accordance with the Uniform Prudent Investor Act and would seek to ethically optimize risk-adjusted returns and grow the fund over time.

The Council does not currently have a “boilerplate” asset allocation for any fund, including the proposed Trust Fund, but it is a fair assumption that the new fund could/would be constructed in a manner similar to other permanent/trust funds managed by the SIC.

As noted above, the requirement that the Trust Fund be included in calculations for state reserves in FY26 may lead the Council to allocate Trust Fund assets more conservatively to ensure capital preservation and enhanced liquidity while this provision is in effect. Once the Trust Fund is no longer considered a state reserve fund, the Council may adjust the asset allocation to focus on higher growth and return enhancement.

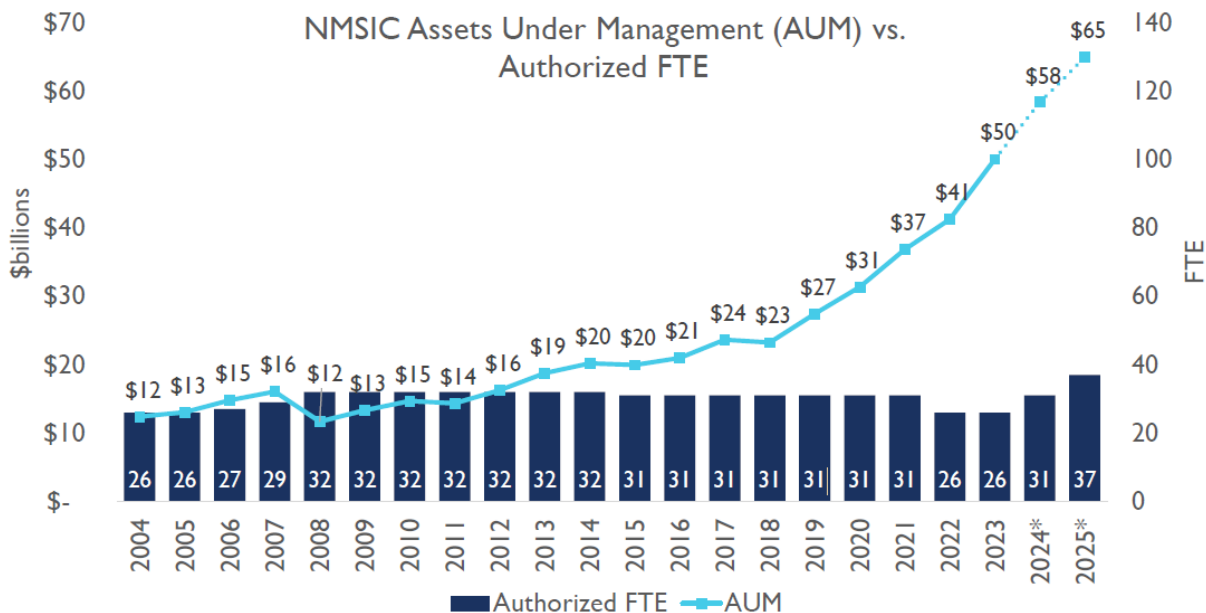
## **ADMINISTRATIVE IMPLICATIONS**

This bill will require additional time from investment, accounting, and administrative staff at the SIC. The SIC's budget is funded out of the land grant and severance tax permanent funds and does not receive general fund support.

Historically, the SIC managed 4 permanent funds (the land grant permanent fund, severance tax permanent fund, water trust fund, and tobacco settlement permanent fund). Since 2019, the Legislature placed 8 additional funds under SIC management, bringing total funds under SIC management to 12 and growing total assets under management (AUM) to over \$58 billion as of December 2024 (more than double the \$27.4 billion total AUM at the end of December 2019).

Growth in AUM requires increasing staff time to implement the funds' asset allocation strategies, which rely heavily on private market investments (e.g. private equity, private credit, real estate, etc.) in addition to traditional stock and bond exposures. About 30 percent of total AUM is invested in private market strategies, which seek to enhance returns and diversify exposures, and the Council's strategic asset allocations target over 50 percent private assets. More assets allocated to these strategies requires staff to source and diligence a growing number of new private fund commitments each year, which is a time-intensive and rigorous process.

Despite rapid growth in AUM, authorized FTE for the State Investment Office has not kept pace, as shown in the chart below. The SIC’s budget request for FY26 included full funding for all 37 authorized FTE, and expert opinions discussed at the SIC’s strategic retreat in December 2024 suggested a need to double the number of investment staff and increase the number of legal and accounting staff to facilitate increased workloads, mitigate risk and maintain proper ongoing due diligence of investments.



\*Estimated AUM  
 Note: AUM reflects total assets under management, including all permanent endowment trust funds, reserve funds, and third party client assets. AUM reported as of calendar year end, except 2004-2007 which reflect fiscal year end balances for TSPF, WTF, and third party clients. FTE reported as of fiscal year end.  
 Source: NMSIC files, RVK, LFC Volume II reports

### CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

This bill is one of several bills introduced so far this session that seek to create new funds to be placed under SIC management:

- House Bill 113 creates a new Animal Welfare Trust Fund to be managed by the SIC. The bill seeks to seed the trust fund with a \$10 million general fund appropriation.
- House Bill 25 creates a new Land Grant-Merced Infrastructure Trust Fund to be managed by the SIC. The bill seeks to seed the trust fund with a \$20 million general fund appropriation.
- House Bill 11 seeks to create a new Paid Family Medical Leave Fund to be managed by the SIC (however, SIC noted in its fiscal impact report that this is an expenditure fund that would be best managed by the State Treasurer’s Office).