FISCAL IMPACT REPORT

		LAST UPDATED	
SPONSOR	Munoz/Stefanics/Woods	**ORIGINAL DATE**	1/27/25
SHORT TITLE	Behavioral Health Trust Fund	**BILL NUMBER**	Senate Bill 1
		ANALYST	Chenier/Torres

APPROPRIATION*
(dollars in thousands)

FY25	FY26	Recurring or Nonrecurring	Fund Affected
$1,000,000.0		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
	$1,000,000					Nonrecurring	Behavioral Health Trust Fund
			($51,300.0)	($51,318.0)	($51,637.0)	Recurring	Behavioral Health Trust Fund
			$51,300.0	$51,318.0	$51,637.0	Recurring	Behavioral Health Program Fund

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

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT*
(dollars in thousands)

Agency/Program	FY25	FY26	FY27	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
		$777.2	$777.2	$1,554.4	Recurring	Other state funds

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

Relates to the General Appropriation Act and Senate Bills 2 and 3

Sources of Information

LFC Files

<u>Agency Analysis Received From</u>
State Investment Council (SIC)
Health Care Authority (HCA)

SUMMARY

Synopsis of Senate Bill 1

Senate Bill 1 (SB1) 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 balance of the trust fund is 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 three-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 HCA, subject to appropriation by the Legislature, to provide money for services and programs related to behavioral health. Any unexpended or unencumbered balances at the end of a fiscal year will revert to the trust fund.

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 new trust fund is seeded with a $1 billion appropriation from 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. The first distribution from the trust fund to the program fund would occur in FY27.

The State Investment Council's expected compound returns range from 5.2 percent (tax stabilization reserve) to 7 percent (the long-term return target for the land grant permanent fund). Due to its inclusion in reserves in 2025 and 2026, returns are assumed to equal that of the tax stabilization reserve. For 2027 and beyond, returns are assumed to approach a 7 percent annual return for the purpose of this analysis because 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 ultimately depend on the fund's investment asset allocation.

The following table provides a simplified example of potential investment returns for the trust fund and subsequent distributions to the Program Fund as reported on page one of this report.

Behavioral Health Trust Fund (dollars in millions)						
Calendar Year	Beginning Balance	Contributions	Gains & Losses	Distribution to Behavioral Health Program Fund	Ending Balance	YOY Fund Growth
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%

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.

SB1 would include the trust fund in the calculation of reserves in FY26, adding $1 billion to the reserve calculation. This would boost the bottom-line reserve percentage by nearly 10 percent.

While the language in SB1 references a transfer from the general fund, the transfer is, in fact, an expense to the general fund, like other appropriations. A transfer is distinguished from an appropriation in bill language only when the dollars taken are sent to another fund rather than expended. For the tables on page 1, the transfer is similarly scored as an appropriation because both are expenses to the general fund and must be scored as such for maintaining the general fund balance sheet.

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.

HCA reports a minimum of 6 FTE would be needed, resulting in $777.2 thousand annual cost for salary and benefits, to manage the fund.

SIGNIFICANT ISSUES

HCA provides the following:

> The bill states that 5 percent of the average of the year-end market value of the trust fund will be allocated to the behavioral health program fund. The program fund allows expenditures for "necessary infrastructure, technology and workforce supports that facilitate the delivery of behavioral health services and programs." Money from the program fund could, therefore, potentially be used for future IT costs related to behavioral health services and programs.

- Budget Predictability: The financial impact could be positive if the revenue source is stable and growing. However, if the fund is reliant on fluctuating revenue sources, it might result in budget volatility.
- Fiscal Sustainability: If the fund grows over time, it could provide fiscal sustainability for behavioral health services.

Finally, the HCA advised bill language that provides clarity on how trust funding could optimize, leverage, or reinforce coordination with the Medicaid program as the primary payor of behavioral health services for New Mexicans, leveraging millions in federal matching funds to promote greater service integration. (For each $1 [from the general fund] invested in the Medicaid program, the state receives approximately $3.40 in federal funds).

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 to assume the new fund could or would be constructed in a manner similar to other permanent and trust funds managed by 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 SIC. SIC’s budget is funded out of the land grant and severance tax permanent funds and does not receive general fund support.

Historically, SIC managed four permanent funds (the land grant permanent fund, severance tax permanent fund, water trust fund, and tobacco settlement permanent fund). Since 2019, the Legislature has placed eight 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, a time-intensive and rigorous process.

Despite rapid growth in AUM, authorized FTE for the State Investment Council has not kept pace. 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.

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