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FISCAL IMPACT REPORT

SPONSOR	Sens. Muñoz, Stefanics, Woods and Block/Rep. Hochman-Vigil	**LAST UPDATED**	2/13/25
		ORIGINAL DATE	1/27/25
SHORT TITLE	Behavioral Health Trust Fund	**BILL NUMBER**	Senate Bill 1/aSFC
		ANALYST	Chenier/Torres

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

Agency Analysis Received From
State Investment Council (SIC)
Health Care Authority (HCA)

SUMMARY

Synopsis of SFC Amendment

The Senate Finance Committee amendment to Senate Bill 1 (SB1) strikes the appropriation and allows for the trust fund to be included as a reserve fund of the general fund for fiscal years 2026 and 2027. The amendment also changes a reference of "substance abuse" to "substance misuse."

Synopsis of Original 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).

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

HCA reports a minimum of 6 FTE would be needed to manage the program, 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.

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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