

LFC Requester: _____

AGENCY BILL ANALYSIS - 2025 REGULAR SESSION

WITHIN 24 HOURS OF BILL POSTING, UPLOAD ANALYSIS TO

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(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: 3/4/25 *Check all that apply:*
Bill Number: S88a-341 Original Correction
 Amendment Substitute

Sponsor: Sen. Muñoz
Sen. Sharer
Sen. Woods
Rep. Herndon
Sen. Stefanics

Agency Name and Code DFA-341
Number: _____
Person Writing Delgado L.
Phone: _____ **Email** leonardo.delgado@dfa

Short Title: MEDICAID TRUST FUND & STATE SUPPORTED FUND

SECTION II: FISCAL IMPACT APPROPRIATION (dollars in thousands)

| Appropriation | | Recurring or Nonrecurring | Fund Affected |
|---------------|------|---------------------------|---------------|
| FY25 | FY26 | | |
| | | NR | GF |
| | | | |

(Parenthesis () Indicate Expenditure Decreases)

REVENUE (dollars in thousands)

| Estimated Revenue | | | | | Recurring or Nonrecurring | Fund Affected |
|-------------------|-------------|-------------|-------------|-------------|---------------------------|---------------------|
| FY25 | FY26 | FY27 | FY28 | FY29 | | |
| | (\$279,700) | (\$262,800) | (\$264,900) | (\$267,800) | R | General Fund |
| | \$279,700 | \$262,800 | \$264,900 | \$267,800 | R | Medicaid Trust Fund |

(Parenthesis () Indicate Expenditure Decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

| | FY25 | FY26 | FY27 | 3 Year Total Cost | Recurring or Nonrecurring | Fund Affected |
|--------------|-------------|-------------|-------------|------------------------------|--------------------------------------|--------------------------|
| Total | | | | | | |

(Parenthesis () Indicate Expenditure Decreases)

Duplicates/Conflicts with/Companion to/Relates to:
Duplicates/Relates to Appropriation in the General Appropriation Act

SECTION III: NARRATIVE

Senate Finance Committee Amendments in Context

The SFC amendments removes the \$300 million transfer from the general fund. Additionally, the bill eliminates the provision requiring that all general fund agency and capital outlay reversions (2021 to 2024), not reverted to the general fund already, be directed to the Medicaid Trust Fund.

Lastly, the amended bill includes language stating that if federal Medicaid funding is reduced, resulting in decreased coverage, funds from the Medicaid Trust Fund may be appropriated to support the state’s Medicaid program.

The effective date of this proposal is July 1st, 2025

ORIGINAL BILL SUMMARY

Synopsis:

SB 88 establishes the Medicaid Trust Fund and the State-Supported Medicaid Fund to provide stronger financial support for Medicaid programs in New Mexico. Since the bill does not specify an effective date, it will take effect 90 days after the legislature adjourns in FY25. The Medicaid Trust Fund will be created through a general fund transfer or appropriation in FY25. The bill emphasizes the need for active legislative management to ensure the fiscal health of Medicaid programs. Aims to provide a stable financial foundation for Medicaid in New Mexico, thus potentially improving healthcare services for residents relying on these programs.

The bill directs reversions of general fund appropriations and capital outlay project funds to the Medicaid Trust Fund. It mandates that unexpended or unencumbered balances from prior-year appropriations revert to the fund until it reaches a balance of \$2 billion.

Key points:

- Creation of Funds:
 - Establishes the Medicaid Trust Fund as a non-reverting fund in the state treasury, comprised of:
 - Distributions
 - Appropriations
 - Gifts and donations
 - Introduces the State-Supported Medicaid Fund to support state Medicaid programs.

- **Funding Sources:**
 - Transfers reversions of general fund appropriations and capital outlay projects to the Medicaid Trust Fund for a specified period.
 - Allocates certain investment income to the trust fund.
- **Reversion Requirements:**
 - Mandates that unexpended or unencumbered balances from prior year appropriations revert to the Medicaid Trust Fund, unless the fund reaches a balance of \$2 billion, at which point excess funds revert to the general fund.
- **Investment Oversight:**
 - The State Investment Officer is tasked with managing investments in accordance with the prudent investor rule.
 - Quarterly and annual reports on investments will be submitted to relevant legislative committees.
- **Distributions:**
 - Starting July 1, 2029, the trust fund will distribute 5% of its average year-end market values to the state-supported Medicaid fund, conditional upon a minimum balance of \$500 million in the trust fund.
- **Expenditure Conditions:**
 - Allows expenditures from the Medicaid Trust Fund under specific conditions, such as substantial decreases in federal Medicaid matching funds or insufficient general fund balances.

FISCAL IMPLICATIONS

Senate Finance Committee Amendments in Context

Section 4 of the amended bill continues to redirect STO earnings to the Medicaid Trust Fund instead of the general fund, reallocating \$279.7 million in FY26, \$262.8 million in FY27, \$264.9 million in FY28, and \$267.8 million in FY29, based on the latest consensus estimate. These inflows to the Medicaid Trust Fund represent corresponding revenue losses for the general fund.

For FY30 and beyond, STO values are projected to grow in line with the CREG consensus long-term growth rate from September 2024. While interest rate markets have fluctuated, the Federal Funds rate is expected to remain stable for much of 2025, keeping rates consistent with the September analysis.

However, this reallocation introduces revenue volatility to the Medicaid Trust Fund, as fluctuations in interest rates could lead to both positive and negative revenue swings. This volatility is further compounded by the monthly realized and unrealized gains and losses experienced by STO, which, under this bill, would be managed within the Medicaid Trust Fund.

The table on the next page illustrates the projected growth of the fund. Based on these assumptions, the Medicaid Trust Fund is estimated to reach its target balance of \$2 billion by calendar year 2032. Once this target balance is achieved, STO revenues will return to the general fund. STO revenue is only projected up until the target balance is achieved.

Medicaid Trust Fund

| CY | Beginning Balance | Gains & Losses | Inflow of estimated STO Revenue | Distribution to State-Supported Medicaid Fund | Ending Balance (\$ in millions) | FY | Distribution to State-Supported Medicaid Fund | |
|------|-------------------|----------------|---------------------------------|---|---------------------------------|------------|---|----------|
| | | | | | | | | |
| CY25 | \$ - | \$ - | \$ - | \$ 165.6 | \$ 165.6 | FY25 | \$ - | |
| CY26 | \$ 165.6 | \$ 8.6 | \$ - | \$ 271.3 | \$ - | \$ 445.4 | FY26 | \$ - |
| CY27 | \$ 445.4 | \$ 23.2 | \$ - | \$ 263.9 | \$ - | \$ 732.4 | FY27 | \$ - |
| CY28 | \$ 732.4 | \$ 38.1 | \$ - | \$ 266.4 | \$ - | \$ 1,036.9 | FY28 | \$ - |
| CY29 | \$ 1,036.9 | \$ 53.9 | \$ - | \$ 269.7 | \$ (36.9) | \$ 1,323.6 | FY29 | \$ - |
| CY30 | \$ 1,323.6 | \$ 89.6 | \$ - | \$ 273.4 | \$ (51.5) | \$ 1,635.0 | FY30 | \$ 36.9 |
| CY31 | \$ 1,635.0 | \$ 110.7 | \$ - | \$ 277.1 | \$ (66.6) | \$ 1,956.1 | FY31 | \$ 51.5 |
| CY32 | \$ 1,956.1 | \$ 132.4 | \$ - | \$ - | \$ (81.9) | \$ 2,006.7 | FY32 | \$ 66.6 |
| CY33 | \$ 2,006.7 | \$ 135.9 | \$ - | \$ - | \$ (93.3) | \$ 2,049.2 | FY33 | \$ 81.9 |
| CY34 | \$ 2,049.2 | \$ 138.7 | \$ - | \$ - | \$ (100.2) | \$ 2,087.7 | FY34 | \$ 93.3 |
| CY35 | \$ 2,087.7 | \$ 141.3 | \$ - | \$ - | \$ (102.4) | \$ 2,126.7 | FY35 | \$ 100.2 |
| CY36 | \$ 2,126.7 | \$ 144.0 | \$ - | \$ - | \$ (104.4) | \$ 2,166.3 | FY36 | \$ 102.4 |
| CY37 | \$ 2,166.3 | \$ 146.7 | \$ - | \$ - | \$ (106.3) | \$ 2,206.6 | FY37 | \$ 104.4 |
| CY38 | \$ 2,206.6 | \$ 149.4 | \$ - | \$ - | \$ (108.3) | \$ 2,247.6 | FY38 | \$ 106.3 |
| CY39 | \$ 2,247.6 | \$ 152.2 | \$ - | \$ - | \$ (110.3) | \$ 2,289.5 | FY39 | \$ 108.3 |
| CY40 | \$ 2,289.5 | \$ 155.0 | \$ - | \$ - | \$ (112.4) | \$ 2,332.1 | FY40 | \$ 110.3 |

Note: Assumes 5.2% rate of return through CY29. Beginning in CY30 assumed rate of return is increased to 6.77%. Consistent with SIC's expected "growth mode" rate of return for the Early Childhood's Trust Fund. Analysis uses December 2024 CREG STO estimates converted from FY to CY values for the purposes of this analysis.

Based on these assumptions, the first distribution is estimated at \$36.9 million in FY30, with subsequent distributions increasing incrementally.

ORIGINAL BILL Fiscal Implications

A \$300 million transfer from the general fund will be used to establish the Medicaid Trust Fund. This transfer is considered a cost to the general fund and is recorded as an appropriation in this FIR.

The assumed rate of return is set at 5.2%, aligning with the State Investment Council's (SIC) target rate of return for the Tax Stabilization Reserve (TSR) until the end of 2029. Beginning in 2030, the assumed rate of return increases to 6.67%, consistent with SIC's more aggressive target for the Early Childhood Trust Fund.

Additionally, the inflow reversion assumes a \$5 million in general fund capital outlay reversions and since the amount of reversions from 2021 through 2024 that have not already reverted to the general fund are unknown a value for these was not added. It is important to note that the actual rate of return will depend on SIC's allocation strategy, and the amount of reversions will vary based on state agency funding and spending dynamics.

Additionally, Section 3 of the bill redirects STO earnings to the Medicaid Trust Fund instead of the general fund. This diverts \$279.7 million, \$262.8 million, \$264.9 million, and \$267.8 million in FY26, FY27, FY28, and FY29, respectively. These STO values are based on the latest consensus estimate.

The bill stipulates that, starting July 1, 2029, the trust fund will distribute 5% of its average three year-end market value to the state-supported Medicaid fund, provided the trust fund maintains a minimum balance of \$500 million. The first distribution from the Medicaid Trust Fund to the State Supported Medicaid Fund will occur in FY30.

Based on these assumptions, the table on the below illustrates the fund's potential growth and distributions to the State-Supported Medicaid Fund. The first distribution is estimated at \$54.2 million in FY30, with subsequent distributions increasing incrementally. Although the bill sets the distribution date for July 1, 2029, the fund is projected to reach an estimated \$500 million balance by the end of calendar year 2026. Additionally, this estimate projects that the Medicaid Trust Fund

will reach the bill’s target balance of \$2 billion until the end of calendar year 2030.

| Medicaid Trust Fund | | | | | | | | |
|----------------------------|-------------------|----------------|--------------------------------|---------------------------------|---|---------------------------------|------|---|
| CY | Beginning Balance | Gains & Losses | Inflow of estimated Reversions | Inflow of estimated STO Revenue | Distribution to State-Supported Medicaid Fund | Ending Balance (\$ in millions) | FY | Distribution to State-Supported Medicaid Fund |
| | | | | | | | | |
| CY26 | \$ 478.4 | \$ 24.9 | | \$ 271.3 | \$ - | \$ 774.5 | FY26 | \$ - |
| CY27 | \$ 774.5 | \$ 40.3 | | \$ 263.9 | \$ - | \$ 1,078.6 | FY27 | \$ - |
| CY28 | \$ 1,078.6 | \$ 56.1 | | \$ 266.4 | \$ - | \$ 1,401.1 | FY28 | \$ - |
| CY29 | \$ 1,401.1 | \$ 72.9 | | \$ 269.7 | \$ (54.2) | \$ 1,689.3 | FY29 | \$ - |
| CY30 | \$ 1,689.3 | \$ 114.4 | | \$ 273.4 | \$ (69.5) | \$ 2,007.6 | FY30 | \$ 54.2 |
| CY31 | \$ 2,007.6 | \$ 135.9 | | \$ - | \$ (85.0) | \$ 2,058.5 | FY31 | \$ 69.5 |
| CY32 | \$ 2,058.5 | \$ 139.4 | | \$ - | \$ (95.9) | \$ 2,102.0 | FY32 | \$ 85.0 |
| CY33 | \$ 2,102.0 | \$ 142.3 | | \$ - | \$ (102.8) | \$ 2,141.5 | FY33 | \$ 95.9 |
| CY34 | \$ 2,141.5 | \$ 145.0 | | \$ - | \$ (105.0) | \$ 2,181.4 | FY34 | \$ 102.8 |
| CY35 | \$ 2,181.4 | \$ 147.7 | | \$ - | \$ (107.1) | \$ 2,222.0 | FY35 | \$ 105.0 |
| CY36 | \$ 2,222.0 | \$ 150.4 | | \$ - | \$ (109.1) | \$ 2,263.4 | FY36 | \$ 107.1 |
| CY37 | \$ 2,263.4 | \$ 153.2 | | \$ - | \$ (111.1) | \$ 2,305.5 | FY37 | \$ 109.1 |
| CY38 | \$ 2,305.5 | \$ 156.1 | | \$ - | \$ (113.2) | \$ 2,348.4 | FY38 | \$ 111.1 |
| CY39 | \$ 2,348.4 | \$ 159.0 | | \$ - | \$ (115.3) | \$ 2,392.1 | FY39 | \$ 113.2 |
| CY40 | \$ 2,392.1 | \$ 161.9 | | \$ - | \$ (117.4) | \$ 2,436.6 | FY40 | \$ 115.3 |

Note: Assumes 5.2% rate of return through CY29. Beginning in CY30 assumed rate of return is increased to 6.77%. Consistent with SIC's expected "growth mode" rate of return for the Early Childhood's Trust Fund. Analysis uses \$5 million in GF Capital Outlay reversions. Lastly, Analysis uses December 2024 CREG STO estimates converted from FY to CY values for the purposes of this analysis.

SIGNIFICANT ISSUES

PERFORMANCE IMPLICATIONS

The DFA FCD notes that the relationship between Sections 3 and 5 of the bill is unclear, as they appear to be either redundant or contradictory.

ADMINISTRATIVE IMPLICATIONS

The DFA FCD notes that this bill will increase FCD’s workload related to year-end calculations, likely delaying the audit process and pushing the calculation of reserves and year-end balances further into November. Additionally, DFA FCD highlights the need for increased staff to handle the additional calculations, transfers, and determinations required under the bill..

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

TECHNICAL ISSUES

OTHER SUBSTANTIVE ISSUES

ALTERNATIVES

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

If this bill is not enacted, the Medicaid Trust Fund will not be created, and the general fund will retain STO revenues without experiencing any loss.

AMENDMENTS