

<b>LFC Requester:</b>	<b>Jorgenson</b>
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**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:** 2/20/25 *Check all that apply:*  
**Bill Number:** SB 380 Original  Correction   
 Amendment  Substitute

**Sponsor:** Campos **Agency Name and Code** 337 – State Investment Office  
**Short Title:** Physician Graduate Medical Ed. Trust Fund **Number:** \_\_\_\_\_  
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**SECTION II: FISCAL IMPACT**

**APPROPRIATION (dollars in thousands)**

Appropriation		Recurring or Nonrecurring	Fund Affected
FY25	FY26		
\$100,000.0		Nonrecurring	General Fund

(Parenthesis ( ) indicate expenditure decreases)

**REVENUE (dollars in thousands)**

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY25	FY26	FY27		
	\$0.0	(\$5,000.0)	Recurring	Physician Graduate Medical Ed. Trust Fund
	\$0.0	\$5,000.0	Recurring	Physician Graduate Medical Ed. 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 380 creates the Physician Graduate Medical Education Trust Fund (the “Trust Fund”) to provide recurring funding to a newly created Physician Graduate Medical Education Program Fund (the “Program Fund”), which would support physician graduate medical education programs located in rural and underserved areas.

The bill appropriates \$100 million from the general fund in FY25 to the Trust Fund, which will be invested by the State Investment Officer in consultation with the secretary of the Health Care Authority.

On July 1 of each year, the Trust Fund will make annual distributions of 5 percent of the prior 3-calendar-year average market value of the fund to the Program Fund. The Program Fund is to be administered by the Health Care Authority subject to appropriation by the legislature.

For FY26-FY28, up to \$2.5 million of the program fund may be appropriated for programs in rural and underserved areas that are in the process of becoming accredited, up to \$500,000 for programs in these areas that have been accredited for less than one year, and up to the balance of the fund to further support programs in these areas that have been accredited for more than one year.

For FY29 and beyond, up to the balance of the Program Fund may be appropriated to support programs in rural and underserved areas that have been accredited for more than one year.

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 \$100 million appropriation from the general fund, assumed to be deposited in June 2025. The Trust Fund will make annual distributions to the program fund each July 1 in an amount equal to 5 percent of the prior 3-calendar-year average market value of the fund. When the Trust Fund has been in effect for less than 3 calendar years, the distribution will equal 5 percent of the average year-end value for the number of calendar years the Trust Fund has been in effect.

On July 1, 2025 (FY26), the fund will not have been in effect for a full calendar year; therefore, no distribution will be made. The first distribution from the Trust Fund will occur on July 1, 2026 (FY27) and is estimated to be about \$5 million, depending on market performance of the fund from July-December 2025.

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

Trust Fund (\$millions)							Distribution to Program Fund (\$MM)		
Calendar Year	Beginning Balance	Contributions	Gains & Losses	Distrib	Ending Balance	YOY Fund Growth	Fiscal Year	Distrib Date	Amount
2025	\$0.0	\$100.0	\$0.0	\$0.0	\$100.0		FY25	Jul-24	n/a
2026	\$100.0	\$0.0	\$0.0	-\$5.0	\$95.0	-5.0%	FY26	Jul-25	\$0.000
2027	\$95.0	\$0.0	\$6.5	-\$4.9	\$96.6	1.7%	FY27	Jul-26	\$5.000
2028	\$96.6	\$0.0	\$6.6	-\$4.9	\$98.3	1.8%	FY28	Jul-27	\$4.875
2029	\$98.3	\$0.0	\$6.7	-\$4.8	\$100.2	1.9%	FY29	Jul-28	\$4.860
2030	\$100.2	\$0.0	\$6.8	-\$4.9	\$102.1	1.9%	FY30	Jul-29	\$4.832
2031	\$102.1	\$0.0	\$7.0	-\$5.0	\$104.1	1.9%	FY31	Jul-30	\$4.919
2032	\$104.1	\$0.0	\$7.1	-\$5.1	\$106.1	1.9%	FY32	Jul-31	\$5.012
2033	\$106.1	\$0.0	\$7.2	-\$5.2	\$108.1	1.9%	FY33	Jul-32	\$5.108
2034	\$108.1	\$0.0	\$7.4	-\$5.3	\$110.2	1.9%	FY34	Jul-33	\$5.206
2035	\$110.2	\$0.0	\$7.5	-\$5.4	\$112.3	1.9%	FY35	Jul-34	\$5.306
2036	\$112.3	\$0.0	\$7.7	-\$5.5	\$114.5	1.9%	FY36	Jul-35	\$5.408
2037	\$114.5	\$0.0	\$7.8	-\$5.6	\$116.7	1.9%	FY37	Jul-36	\$5.512
2038	\$116.7	\$0.0	\$8.0	-\$5.7	\$118.9	1.9%	FY38	Jul-37	\$5.618
2039	\$118.9	\$0.0	\$8.1	-\$5.8	\$121.2	1.9%	FY39	Jul-38	\$5.726
2040	\$121.2	\$0.0	\$8.3	-\$5.9	\$123.6	1.9%	FY40	Jul-39	\$5.836

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). Because the proposed Trust Fund makes consistent annual distributions based on a rolling average market value and has no provisions to shore up general fund budgets in the event of a fiscal deficit, staff assume a 7 percent annual return for the purpose of this analysis; 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.

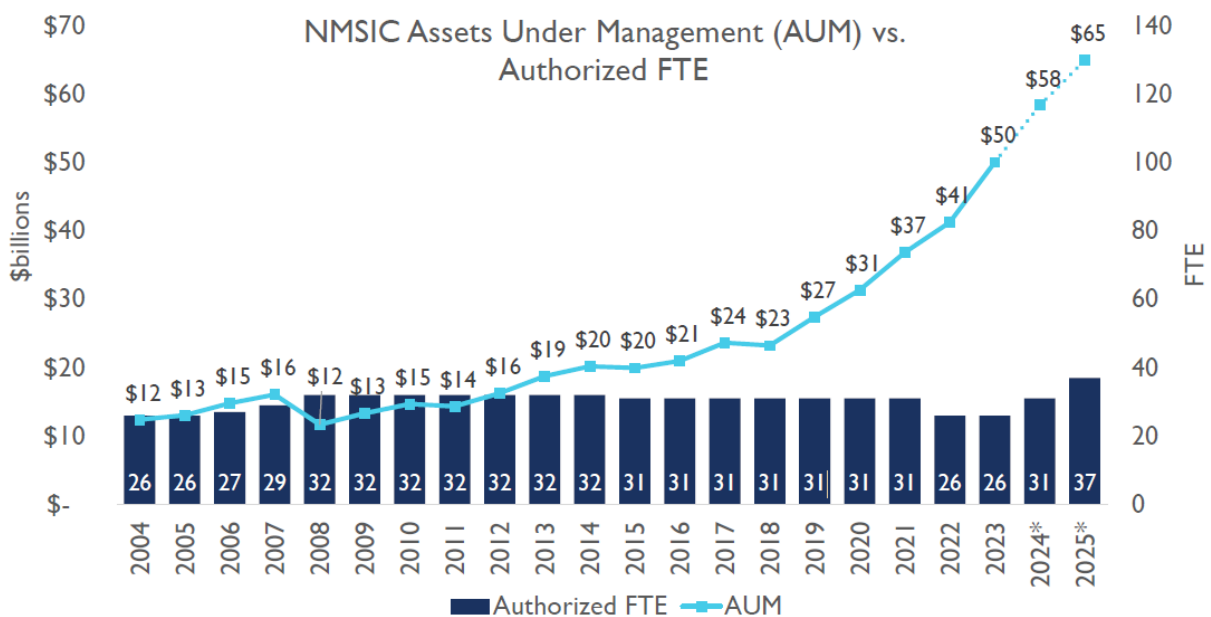
**ADMINISTRATIVE IMPLICATIONS**

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

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 7 creates a new Children’s Future Fund to be managed by the SIC. The bill seeks to seed the fund with an initial \$5 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).
- 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 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.

- Senate Bill 1 creates a new Behavioral Health Trust Fund to be managed by the SIC. The bill seeks to seed the trust fund with a \$1 billion general fund appropriation.
- Senate Bill 88 creates a new Medicaid Trust Fund to be managed by the SIC. The bill seeks to seed the trust fund with a \$300 million general fund appropriation.
- Senate Bill 234 creates a Tribal Education Trust to be managed by SIC. The bill seeks to seed the trust fund with a \$100 million general fund appropriation.
- SB358 creates a Equine Welfare Trust Fund to be managed by the SIC. The bill seeks to seed the trust fund with a \$20 million general fund appropriation.
- Senate Bill 374 (and House Bill 330) creates a Land Grant-Merced and Acequia Infrastructure Trust Fund to be managed by the SIC.
- Senate Bill 397 creates the Next Generation Trust Fund to be managed by the SIC. The bill seeks to seed the trust fund with a \$500 million general fund appropriation.