

<b>LFC Requester:</b>	<b>Chenier</b>
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**AGENCY BILL ANALYSIS  
2024 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}*

Check all that apply:  
**Original**        **Amendment**      
**Correction**        **Substitute**   

**Date** 1/24/24  
**Bill No:** SB 139

**Sponsor:** Munoz  
**Short Title:** Medicaid Trust Fund

**Agency Name and Code**    SIC 337  
**Number:** \_\_\_\_\_  
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**SECTION II: FISCAL IMPACT**

**APPROPRIATION (dollars in thousands)**

Appropriation		Recurring or Nonrecurring	Fund Affected
FY24	FY25		
	\$1,000,000.0	Nonrecurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

**REVENUE (dollars in thousands)**

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY24-FY27	FY28	FY29		
\$0	\$54,700.0	\$57,000.0	Recurring	State-Supported Medicaid Fund (NEW)

(Parenthesis ( ) Indicate Expenditure Decreases)

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

	FY24	FY25	FY26	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
<b>Total</b>						

(Parenthesis ( ) Indicate Expenditure Decreases)

**SECTION III: NARRATIVE**

**BILL SUMMARY**

Synopsis:

Senate Bill 139 appropriates \$1 billion from the general fund in FY25 to a newly created Medicaid Trust Fund (“MTF” or “trust fund”) to be invested by the State Investment Officer with approval by the State Investment Council. The funds are to be managed in accordance with the Uniform Prudent Investor Act and in consultation with the State Treasurer.

Beginning in FY28, the new trust fund will distribute 5 percent of the prior 3-year average ending balance to the State-Supported Medicaid Fund (SSMF), which this bill also creates. The SSMF is a non-reverting, interest-earning fund in the state treasury that will be managed by the Health Care Authority, with money in the fund available for appropriation by the legislature to support and match federal funds for the state Medicaid program.

In addition to the regular distribution, money in the trust fund may be appropriated to cover budgetary shortfalls following complete expenditure of the general fund, the general fund operating reserve, the appropriation contingency fund, and tax stabilization reserve.

The effective date of this bill is July 1, 2024.

**FISCAL IMPLICATIONS**

The new Medicaid Trust Fund is seeded with a \$1 billion appropriation from the general fund in FY25. Distributions from the MTF begin in FY28 and are set at 5 percent of the fund’s average market value for the prior 3 calendar years.

The table below provides a simplified example of potential investment returns for the MTF and subsequent potential distributions to the State-Supported Medicaid Fund.

Medicaid Trust Fund (\$millions)						
Calendar Year	Beginning Balance	Contributions	Gains & Losses	Distrib	Ending Balance	YOY Fund Growth
2024	\$0.0	\$1,000.0	\$30.0	\$0.0	\$1,030.0	
2025	\$1,030.0	\$0.0	\$61.8	\$0.0	\$1,091.8	6.0%
2026	\$1,091.8	\$0.0	\$65.5	\$0.0	\$1,157.3	6.0%
2027	\$1,157.3	\$0.0	\$67.8	-\$54.7	\$1,170.5	1.1%
2028	\$1,170.5	\$0.0	\$68.5	-\$57.0	\$1,182.0	1.0%
2029	\$1,182.0	\$0.0	\$69.2	-\$58.5	\$1,192.6	0.9%
2030	\$1,192.6	\$0.0	\$69.8	-\$59.1	\$1,203.3	0.9%
2031	\$1,203.3	\$0.0	\$70.4	-\$59.6	\$1,214.1	0.9%
2032	\$1,214.1	\$0.0	\$71.0	-\$60.2	\$1,225.0	0.9%
2033	\$1,225.0	\$0.0	\$71.7	-\$60.7	\$1,236.0	0.9%
2034	\$1,236.0	\$0.0	\$72.3	-\$61.3	\$1,247.0	0.9%
2035	\$1,247.0	\$0.0	\$73.0	-\$61.8	\$1,258.2	0.9%
2036	\$1,258.2	\$0.0	\$73.6	-\$62.4	\$1,269.5	0.9%
2037	\$1,269.5	\$0.0	\$74.3	-\$62.9	\$1,280.8	0.9%
2038	\$1,280.8	\$0.0	\$74.9	-\$63.5	\$1,292.3	0.9%
2039	\$1,292.3	\$0.0	\$75.6	-\$64.0	\$1,303.9	0.9%
2040	\$1,303.9	\$0.0	\$76.3	-\$64.6	\$1,315.6	0.9%

Distribution to State-Supported Medicaid Fund (\$MM)		
Fiscal Year	Distrib Date	Amount
FY24	Jul-23	\$0.0
FY25	Jul-24	\$0.0
FY26	Jul-25	\$0.0
FY27	Jul-26	\$0.0
FY28	Jul-27	\$54.7
FY29	Jul-28	\$57.0
FY30	Jul-29	\$58.5
FY31	Jul-30	\$59.1
FY32	Jul-31	\$59.6
FY33	Jul-32	\$60.2
FY34	Jul-33	\$60.7
FY35	Jul-34	\$61.3
FY36	Jul-35	\$61.8
FY37	Jul-36	\$62.4
FY38	Jul-37	\$62.9
FY39	Jul-38	\$63.5
FY40	Jul-39	\$64.0

Return expectations for funds the Council manages range from 5.1 percent (Tax Stabilization Reserve) to 7 percent (the long-term return target for the Land Grant Permanent Fund. For the purpose of this sample analysis, staff assume a 6 percent average annual return for the new Trust Fund created in this bill; however, actual return expectations would ultimately depend on the fund's asset allocation.

Under these assumptions, the MTF could potentially distribute approximately \$55 million to the SSMF in FY28, and depending on the returns earned on the MTF's investments (and any additional appropriations in subsequent years) the distribution may be expected to increase. Any increase in the trust fund's market value (and subsequent distributions), however, would be wholly dependent upon actual returns in the future market environment and cannot be predicted with certainty.

## **SIGNIFICANT ISSUES**

It is important for the Council as manager of the new Trust Fund to properly understand the long-term goals and risk/return appetite of the fund's "client" to appropriately allocate the funds in question. In this case, we would suggest the Secretary for the Health Care Authority be properly consulted in this regard, and could replace the state treasurer (page 2, line 5), who will already be involved in the management process around the new Trust Fund due to her ex-officio role on the State Investment Council.

The SIC supports public policy that encourages maximizing the long-term benefits that endowments can and do provide to the state and its various needs. The endowment model acts not only to stabilize budgets for planning purposes, but also as a revenue engine to benefit current and future generations.

## **PERFORMANCE IMPLICATIONS**

The State Investment Officer, with the approval of the State Investment Council would manage the new 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 and administrative staff at the State Investment Office. However, the additional resources required can be addressed through the SIO's ordinary budgeting process.

## **ALTERNATIVES**

This bill draws language identical to that in existing statute 6-4-2.2, which calls for the state investment officer to invest the Tax Stabilization Reserve (TSR) "...in consultation with the state treasurer."

When the legislature changed law to transfer management of the Tax Stabilization Reserve from

the State Treasurer's Office to the State Investment Council several years ago, the inclusion of the Treasurer as a special advisor to the State Investment Officer was deemed appropriate. However, in this case, this bill's trust fund will be a completely new fund, to be managed and overseen by the 11-member Council, which already includes the State Treasurer. For the new Trust Fund, there is no particular reason to grant the Treasurer additional powers over and above the other 10-members of the Council.

As mentioned above, for the Council to properly understand the long-term goals and risk/return appetite of the fund's "client", we suggest the Secretary for the Health Care Authority could replace the state treasurer (page 2, line 5), who will already be involved in the management process around the new Trust Fund due to her ex-officio role on the State Investment Council.