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FISCAL IMPACT REPORT

		LAST UPDATED	
SPONSOR	Munoz/Rodriguez	**ORIGINAL DATE**	1/30/24
SHORT TITLE	Medicaid Trust Fund	**BILL NUMBER**	Senate Bill 139
		ANALYST	Chenier

APPROPRIATION*
(dollars in thousands)

FY24	FY25	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
				$54,700.0	$57,000.0	Recurring	State-Supported Medicaid Fund

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

Sources of Information

LFC Files

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

SUMMARY

Synopsis of Senate Bill 139

Senate Bill 139 (SB139) transfers $1 billion from the general fund to the Medicaid trust fund (MTF). The bill creates the Medicaid trust fund and the state-supported Medicaid fund with money in the trust fund invested by the State Investment Officer. Starting July 1, 2027, distributions equal to 5 percent of the year-end market value of the trust fund, for the immediately preceding three years, shall be made to the state-supported Medicaid fund. Subsection E allows for distributions from the trust fund to the general fund in the event of a state budget deficit. The state-supported Medicaid fund is subject to appropriation by the legislature to support the state Medicaid program and to match federal funds.

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

FISCAL IMPLICATIONS

The appropriation of $1 billion contained in this bill is a nonrecurring expense to the general fund. Any unexpended or unencumbered balance remaining at the end of a fiscal year would not revert to the general fund.

The following table and text were provided by State Investment Council (SIC):

> The new Medicaid Trust Fund (MTF) 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

SIC said that it is important for the SIC 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 SIC.

PERFORMANCE IMPLICATIONS

The State Investment Officer, with the approval of the SIC 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 SIC 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.

EC/ss/ne/ss