FISCAL IMPACT REPORT

SPONSOR	Sens. Muñoz, Sharer, Woods, and Stefanics/Rep. Herndon	**LAST UPDATED**	3/20/2025
		ORIGINAL DATE	2/16/25
SHORT TITLE	Medicaid Trust Fund & State Supported Fund	**BILL NUMBER**	Senate Bill 88/aSFC/aSFL#1/ aHAFC
		ANALYST	Chenier/Graeser/ Torres

REVENUE*
(dollars in thousands)

Type	FY25	FY26	FY27	FY28	FY29	Recurring or Nonrecurring	Fund Affected
		See Fiscal Implications	See Fiscal Implications	See Fiscal Implications	See Fiscal Implications	Recurring for 6-Years	Medicaid Trust Fund

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

Sources of Information

LFC Files
SIC Analysis

Agency Analysis Received From
Health Care Authority (HCA)
State Investment Council (SIC)
Department of Finance and Administration (DFA)
State Treasurer (STO)

SUMMARY

Synopsis of HAFC Amendment to Senate Bill 88

The House Appropriations and Finance Committee (HAFC) amendment to Senate Bill 88 (SB88) removes the distributions to the Medicaid trust fund from State Treasurer's Office interest earnings and amends the distribution from reversion. The HAFC amendment limits reversion distributions from the general fund to the Medicaid trust fund so that only those reversions in excess of $110 million will be distributed and only until the fund reaches $2 billion.

Synopsis of SFL Amendment #1 to Senate Bill 88

The Senate Floor amendment to Senate Bill 88 corrects an issue with renumbering bill sections following the SFC amendment.

Synopsis of SFC Amendment to Senate Bill 88

The Senate Finance Committee amendment to Senate Bill 88 adds a provision requiring that money in the Medicaid trust fund may be appropriated to support the state Medicaid program if a reduction in federal Medicaid funding received by the state will cause a reduction in coverage or benefits below the levels provided as of the effective date of the act.

The amendment also strikes some of the provisions of the original bill comprising sections that would have allowed revenues from state agency reversions, unexpended/unencumbered balances from prior year general appropriation acts, and all reversions from general fund capital outlay appropriations made between 2021-2024 that have not already reverted to the general fund before the bill's effective date to revert to the Medicaid trust fund.
The amendment strikes the appropriation.

The amendment also adds an effective date of July 1st, 2025.

Synopsis of Original Bill

Senate Bill 88 creates a new Medicaid trust fund, which would be seeded with a $300 million appropriation from the general fund. The new Medicaid trust fund would also receive revenues from state agency reversions, unexpended/unencumbered balances from prior year general appropriation acts, and interest earnings on state treasury balances, until the fund reaches $2 billion.

Additionally, the Medicaid trust fund would receive all reversions from general fund capital outlay appropriations made between 2021-2024 that have not already reverted to the general fund before the bill's effective date.

The bill also creates the state-supported Medicaid fund. Starting in FY30, the Medicaid trust fund will make annual distributions to the state-supported Medicaid fund, which would be administered by the Health Care Authority (HCA) and available for appropriation by the Legislature to support and match federal funds for the state Medicaid program. Distributions would not be made until balances in the trust fund reach at least $500 million and appropriations could be made for any purpose in the event that federal matching funds decrease by 7.5 percent from the prior year or are less than a 1-to-1 federal to state match.

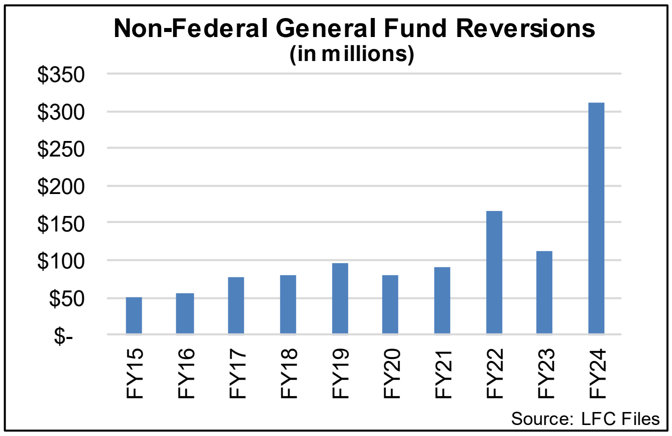
FISCAL IMPLICATIONS

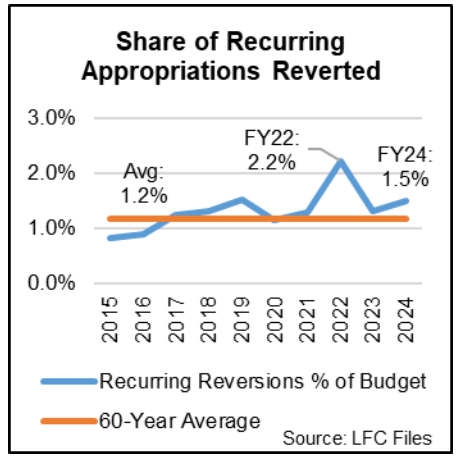
This bill creates new funds which are self-earning investment accounts. The bill does not include a recurring appropriation but diverts or "earmarks" revenue, representing a recurring loss from the general fund for reversions in excess of $110 million. Currently, 100 percent of general fund reversions go to the general fund for appropriation by the Legislature.

Because distributions would not be made to the program fund until at least FY30 there is not an immediate fiscal impact to the Medicaid program. However, the bill would act as a failsafe in the event federal financial participation were to significantly decrease.

For the purposes of all fiscal impact reports, revenues are scored according to the Consensus Revenue Estimating Group's latest revenue forecast. According to that forecast, from December 2024, general fund reversions are estimated to be $100 million a year. Therefore, this analysis does not represent a reflect expectations for a revenue loss as only funds in excess of $110 million are distributed.

However, in the past three years, reversions have exceeded $110 million ranging from $111 million to $310 million. Had these provisions been put into place, that would have meant $256 million into the new fund.





Historical levels of recurring reversions have hovered around 1.2 percent of recurring appropriations, but nonrecurring reversions, money unspent from nonrecurring appropriations or from federal sources, have increased dramatically since 2022. The increase in nonrecurring appropriations in recent years injects significant uncertainty into the forecast as significant reversions come from these sources.

Delays in the reporting of reversions further complicates estimates as financial details are not disclosed until long after the close of the fiscal year. New Mexico is one of the few states that does not report the complete fiscal year collections until December, with more than 80 percent of states reporting the information by October, which results in large adjustments to prior year forecasts months after the fiscal year has ended.

SIGNIFICANT ISSUES

Currently, New Mexico has the highest per capita Medicaid enrollment of any state in the nation. As of January 2025, the Medicaid program projects needing $8.9 billion of federal funds in support of its operations through FY 2025. At this time more than 873 thousand individuals rely on Medicaid for their health care coverage/benefits, representing approximately 40 percent of New Mexico residents. Due to the inherent uncertainty in federal policies affecting eligibility/enrollment the performance implications of the amended bill are indeterminate.

HCA states that Section 1.E of the bill allows for the general use of funds by HCA, conditional on a significant decrease in federal matching funds accruing to the state Medicaid program in a given fiscal year. Specifically, either a decrease of 7.5 percent or the federal match rate drops below a 1-to-1 federal-to-state ratio. For example, if the federal share in FY 2029 were $9 billion, a 7.5 percent decrease would be equivalent to a decrease of $675 million. A second example follows from the federal match percentage becoming less than or equal to the money appropriated by the legislature for the Medicaid program. The FY26 blended federal match percentage is 77.62 percent, the base rate of which gets adjusted annually based on how well the state is performing economically compared to the rest of the states.

SIC notes the following:

> Expected long-term compound returns for funds under SIC's management range from 5.2 percent (Tax Stabilization Reserve) to 7 percent (the long-term return target for the land grant permanent fund). For 2025 and 2026, staff assume Medicaid trust fund returns are similar to that of the capital development and reserve fund (6.2 percent) because the two funds would have similar characteristics.[4] However, actual return expectations would ultimately depend on the fund's asset allocation…

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