FISCAL IMPACT REPORT

BILL NUMBER: CS/House Bill 4/HAFCS/aSFC
SHORT TITLE: Health Care Affordability Fund Distributions
SPONSOR: House Appropriations and Finance Committee
LAST UPDATE: 2/17/2026 **ORIGINAL DATE:** 2/11/2026 **ANALYST:** Chenier

REVENUE*
(dollars in thousands)

Type	FY26	FY27	FY28	FY29	FY30	Recurring or Nonrecurring	Fund Affected
			($91,545.5)	($162,163.6)	($162,327.2)	Recurring	General Fund
			$91,545.5	$144,145.4	$144,290.9	Recurring	Health Care Affordability Fund
				$18,081.2	$18,036.4	Recurring	Behavioral Health Program Fund

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

Relates to appropriations in the House Appropriations and Finance Committee substitute for House Bills 2 and 3 (General Appropriation Act)

Sources of Information
LFC Files

Agency or Agencies Providing Analysis
Taxation and Revenue Department
Health Care Authority
New Mexico Health Insurance Exchange

SUMMARY

Synopsis of SFC amendment to HAFC Substitute for House Bill 4

The Senate Finance Committee amendment to the House Appropriations and Finance Committee Substitute for House Bill 4 reduces the distribution of the health insurance premium surtax to the health care affordability fund from 100 percent to 95 percent in FY29 and distributes the remaining 5 percent to the behavioral health program fund. The amendment also requires any unexpended balance remaining at the end of a fiscal year in the behavioral health program fund to revert to the health care affordability. Currently, balances in the behavioral health program fund revert to the behavioral health trust fund.

Synopsis of HAFC Substitute for House Bill 4

The House Appropriations and Finance Committee substitute for House Bill 4 (HB4) would increase the distribution of the health insurance premium surtax to the health care affordability fund from the current 55 percent to 80 percent starting on September 1, 2027, and 100 percent starting September 1, 2028. Currently, the remaining 45 percent of the surtax is distributed to the general fund.

The effective date of this bill is September 1, 2026.

FISCAL IMPLICATIONS

The bill does not include a recurring appropriation but diverts or "earmarks" revenue, representing a recurring loss from the general fund. LFC has concerns with including continuing distribution language in the statutory provisions for funds because earmarking reduces the ability of the Legislature to establish spending priorities.

This bill would decrease the distribution of the health insurance premium surcharge to the general fund by $162.2 by FY29 million and instead distribute this funding to the health care affordability fund (HCAF) and the behavioral health program fund indefinitely.

From HCAF, the executive recommended spending $366.3 million for FY27, a significant increase over the FY25 expenditures of $108 million, $25 million of which was not a recurring expenditure. Without changing the distribution from the surtax, if the executive recommendation were adopted, LFC estimates the fund would contain a $45.4 million shortfall.

During the 2025 First Special Legislative Session, the state enacted changes to the statutes governing HCAF to expand HCA's authority to promulgate rules to minimize coverage losses because of federal government changes by expanding coverage on the New Mexico Health Insurance Exchange. The bill also eliminated income caps.

A Health Care Authority (HCA) analysis projects total expenditures from the fund to increase from $306.2 million in FY26 to $472.3 million by FY30, there will be a shortfall in the fund of $85.3 million starting in FY28 and increasing to $273.3 million by FY30. The HCA analysis includes surtax revenue distribution changes, as contemplated in the HB4/HAFCS, as well as planned and projected expenditures such as increased spending on affordability programs, coverage for lawfully present immigrants losing Medicaid coverage, and continuing to provide subsidized coverage for those above 400 percent of the federal poverty level.

Based on HCA's analysis, if all the subsidies contemplated by the HCA were to be funded in future years, even with the increased distribution from the surtax, HCAF would not be able sustain these costs. HCA has said that cost containment will be needed in FY28 to stay within the budget.

SIGNIFICANT ISSUES

The fund has an FY26 fund balance of $200 million and will likely carry a fund balance of at least $105 million into FY27. Without adjusting the revenue distribution, the executive budget recommendation would result in a $45 million deficit in the fund. LFC's recommendation for total recurring spending out of the fund is just under projected recurring revenue of $215.4

million in FY27 and would maintain solvency in the fund without requiring additional general fund revenue.

Historically, insurance premium tax revenues have been deposited into the general fund and have served as a relatively stable and predictable revenue source. Premium tax collections tend to be less volatile than other major revenue streams because insurance coverage is less sensitive to economic cycles than income, consumption, or commodity prices. This stability has made the premium tax a reliable component of the general fund base used to support a wide range of statewide priorities.

In recent years, the Legislature has increased taxes on health insurance premiums and redirected a portion of those revenues away from the general fund to support specific healthcare initiatives, including the creation and expansion of the health care affordability fund (HCAF). Under this structure, premium tax and premium surtax revenues are split between the general fund and earmarked healthcare uses, including subsidized coverage and programmatic health expenditures. While these earmarks have expanded funding for targeted healthcare initiatives, they have also reduced the share of premium tax revenue available for general fund purposes.

Available data indicates that not all revenues deposited into HCAF are expended in a given fiscal year. Unused balances may accumulate or be carried forward, reflecting timing mismatches between collections and program expenditures. At the same time, premium tax revenues continue to be generated primarily from individuals and employers participating in commercial insurance markets. In effect, premiums paid by those enrolled in private plans are increasingly used to subsidize coverage or reduce premium costs for other populations, rather than supporting the broader range of public services historically funded through the general fund.

Diverting a stable general fund revenue source for earmarked purposes has fiscal trade-offs. Reduced general fund availability constrains the Legislature's ability to fund other priorities, including Medicaid services for low-income individuals, seniors, and people with disabilities. Medicaid expenditures remain a core obligation of the state budget and are subject to federal matching requirements, making adequate general fund capacity essential. As premium tax revenues are increasingly dedicated to specific programs, pressure on the remaining general fund grows, potentially crowding out funding for other essential services or requiring compensating revenue increases or spending reductions elsewhere.

As policymakers consider further changes to premium taxation or healthcare earmarks, the interaction between revenue stability, fund balances, and competing general fund obligations warrants careful evaluation. Ensuring that targeted health care investments do not unintentionally weaken the state's capacity to meet broader budgetary responsibilities remains a key fiscal consideration.

In July 2025, the federal government enacted House Resolution 1 (H.R.1), a sweeping budget reconciliation package that fundamentally changed the way the federal government finances Medicaid, state health insurance exchanges created under the Affordable Care Act, and other social programs. Many of the changes affect eligibility requirements and increase requirements for state matching funds. Adding to this, enhanced premium tax credits (EPTC) for health insurance buyers, first enacted during the pandemic, are set to expire at the end of 2025, leading to increased exchange premiums nationally starting January 1, 2026.

The executive's budget recommendation from the HCAF includes $92.9 million to cover lawfully present immigrants newly excluded from Medicaid, $38.1 million to offset the expiration of enhanced federal premium tax credits enacted in the Inflation Reduction Act of 2022 that removed the 400 percent of the federal poverty level income limitation for the tax credits, and increases to various other existing programs.

HCA provided the following:

> To respond to these federal cuts, the Health Care Authority (HCA) submitted a FY27 budget request that funds these programs with HCAF dollars, minimizing coverage loss and limiting significant premium increases. To sustain these programs, HB 4 would distribute all revenues generated by the surtax on health insurance companies to the HCAF.
>
> One of the key programs under the HCAF makes coverage more affordable for individuals who purchase private health insurance on BeWell. The program provides premium and out-of-pocket assistance for New Mexicans to make coverage affordable. Since the program launched in January 2023, enrollment has more than doubled.
>
> During the recent Open Enrollment Period that ended on January 15, BeWell reported an increase in enrollment in every county in New Mexico. New Mexico overall saw a 17.1 percent enrollment increase compared to last year's open enrollment period. This occurred even as many other states reported decreases in enrollment due to skyrocketing costs and the loss of the enhanced Premium Tax Credit.
>
> Health insurance premiums are more expensive in rural areas, which is why state subsidies have an even greater impact on affordability in rural New Mexico. The FY27 Executive Budget Recommendation means larger premium and out-of-pocket subsidies on BeWell for rural New Mexicans and greater premium discounts for rural small businesses. While 23 percent of New Mexicans live in rural areas, 34 percent of BeWell enrollees (28,024 individuals) live in rural New Mexico and 33.9 percent of lawfully present Medicaid enrollees losing eligibility under H.R.1 (5,052 individuals) live in rural New Mexico.
>
> Loss of coverage, leading to an increase in uncompensated care, can have especially negative impacts in rural areas. When families forego lower cost preventive treatment, chronic illnesses go untreated, health outcomes worsen, and individuals instead access higher-cost emergency services that hospitals are required by law to provide. Hospitals lose essential revenue, treat the uninsured at a loss, are forced to reduce workforce, and some, especially rural hospitals, could close their doors. Uncompensated care costs can reduce hospital operating margins and factor in hospital closures, leaving rural residents with farther to travel and less options for health care services. This puts additional pressure on private insurance premiums, as hospitals shift costs to stay afloat. The possible loss of Medicaid coverage for New Mexicans due to their lawfully present immigration status because of HR 1 is likely to contribute to this problem.
>
> To protect individuals and families from these increased costs and the loss of access to affordable health care, and to help maintain affordable health insurance coverage amid ongoing federal policy changes, the legislature increased funding for these programs in Fiscal Year 2026. During the 2025 legislative session, the Legislature appropriated $22.3

million to backfill the federal subsidy cuts for those under 400% FPL. During the first 2025 special session, the legislature amended §§ 59A-23F-11 and 59A-23F-12 to expand eligibility requirements and appropriated $17.3 million in additional funds to prevent those above 400% FPL from losing assistance. The federal enhanced subsidies expired on December 31, 2025, causing significant premium increases across the country. New Mexico was the only state to fully backfill those subsidies.

HCAF funds have been essential for protecting New Mexicans from high costs; however, the magnitude of federal cuts and the increased number of enrollments require greater ongoing state investments to minimize loss of coverage. Losing health insurance has far-reaching impacts beyond the health insurance market, affecting health care access, family budgets and financial stability, uncompensated care, and the health care workforce.

HB4 is critical for the fund to protect New Mexicans from massive premium increases and coverage loss. The distribution will ensure sufficient revenue will be available on an ongoing basis and to minimize coverage losses. Without HB4, thousands of New Mexicans will face coverage disruptions, increased costs, and heightened vulnerability to negative health outcomes due to delayed care. With HB4, the HCAF could maximize access to affordable coverage.

The Tax and Revenue Department (TRD) stated that on January 1, 2026, premium tax credits (PTC) enacted under the American Rescue Plan and extended by the Inflation Reduction Act expired for more than 20 million people across the United States. These credits previously subsidized the cost of health insurance plans through insurance marketplaces including BeWell, New Mexico's Health Insurance Marketplace. These subsidies were seen to particularly increase health insurance enrollment of black and latino individuals and families with lower incomes.1 The subsidies were also impactful to transition those who lost Medicaid after the end of COVID era funding. Depending on a household's federal poverty level, premium increases are estimated to increase from 55 percent to over 300 percent. New Mexico has appropriated state dollars to assist these families in fully replacing the lost federal subsidies and maintain health insurance. This increase to the HCAF will aid in maintaining the level of support needed to keep individuals and families insured.

The New Mexico Health Insurance Exchange provided the following:

HCAF is the source for the state subsidies that lower the cost of health insurance premiums for New Mexicans who are eligible to purchase coverage through BeWell, New Mexico's Health Insurance Marketplace. The subsidies, which are part of the Marketplace Affordability Program, include:

- New Mexico Premium Assistance (NMPA), for which enrollees are eligible 1) if they are also eligible for APTC OR 2) if they would be eligible for APTC except for household income requirements;
- Native American Premium Assistance (NAPA), for which enrollees are eligible if they attest to Native American membership; and
- Medicaid Transition Premium Relief (MTPR), which enrollees can receive to cover the balance of their first month's premium after losing Medicaid coverage and enrolling in marketplace coverage.

In 2025, New Mexico prepared for the expiration of enhanced premium tax credits in the

absence of Congressional action to extend them, as well as an average 36% increase in health insurance premiums across the marketplace. In the 2025 regular session, House Bill 2 appropriated $72.3 million HCAF to backfill expiring enhanced APTC for BeWell enrollees with incomes under 400% of the federal poverty level (FPL). In the 2025 First Special Session, House Bill 2 was enacted to "decouple" state subsidy eligibility from APTC eligibility, enabling enrollees with incomes under 100% and over 400% of the FPL to continue receiving NMPA if enhanced premium tax credits expired; House Bill 1 appropriated $17.3 million from HCAF for the purpose.

As demands on the HCAF continue to grow – as premiums continue to rise and APTC eligibility shrinks under changing federal laws and regulations – ensuring stable and robust revenue sources for the HCAF is critical to continuing the Marketplace Affordability Program.

Due to higher enrollment and the expiration of the enhanced PTC, the HCAF will pay out $11.3 million in NMPA in January 2026, compared to $1.6 million, on average, each month in Plan Year 2025.

Currently, 52 percent of BeWell's more than 84,000 consumers pay $50 or less per month in premiums. About two-thirds (68 percent) of consumers pay $250 or less per month for their coverage. Marketplace enrollees receive, on average, $618.65 in APTCs; in January 2026, BeWell enrollees accessed approximately $40.2 million in APTC funding through the marketplace, compared to approximately $37.1 million, on average, each month in Plan Year 2025.

On average, consumers receiving New Mexico Premium Assistance save $180.50 and consumers receiving Native American Premium Assistance save $90.28, both funded by HCAF. Just 8 percent of BeWell enrollees, about 4,800 members, receive no subsidies for their premiums.

Nearly four in five (79.8 percent) BeWell consumers are enrolled in a Turquoise Plan, which have lower out-of-pocket costs, due to funding from HCAF. Turquoise plans are available to consumers with incomes up to 400 percent of the FPL which allow them to receive HCAF-funded state subsidies.

BeWell's marketplace currently serves a record 84,000 enrollees, up from 70,373 enrollees last plan year. During Open Enrollment for the 2026 Plan Year, the westernmost part of the state saw the most enrollment growth in Catron (+32 percent), McKinley (+29 percent), Cibola (+25 percent), and San Juan (+24 percent) Counties; 39.4 percent of consumers enrolled in medical coverage through the marketplace have household incomes of 200 percent FPL or lower ($31,300 for a single person or $64,300 for a family of four).

Attachment: Health Care Affordability Fund Sources and Uses

EC/hg/sgs/ct/sgs/cf/ct/cf/sgs/dw

Health Care Affordability Fund Sources and Uses

(in thousands)

		FY25 Actual	FY26 Operating Budget	FY27 Budget Request	FY27 Executive Rec	FY27 LFC Rec
1	**BEGINNING BALANCE**	**$ 211,003.5**	**$ 200,108.8**	**$ 105,480.3**	**$ 105,480.3**	**$ 105,480.3**
2	**REVENUE**					
3	**Surtax Revenue***	$ 97,824.6	$ 211,500.0	$ 215,400.0	$ 215,400.0	$ 215,400.0
4	**TOTAL FUND BALANCE**	**$ 308,828.1**	**$ 411,608.8**	**$ 320,880.3**	**$ 320,880.3**	**$ 320,880.3**
6	**EXPENDITURES**					
7	**Recurring**					
8	Fund Administration	$ 2,159.4	$ 2,028.5	$ 3,430.5	$ 3,430.5	$ 2,028.5
9	Small Business Premium Reduction	$ 43,729.9	$ 50,000.0	$ 53,662.1	$ 53,662.1	$ 50,000.0
10	Health Insurance Marketplace Affordability: Out of Pocket Assistance	$ 37,830.0	$ 50,000.0	$ 103,741.2	$ 103,741.2	$ 75,000.0
11	FY27 Coverage Plans for Lawfully-Present Immigrants Under 100 Percent FPL (prior years shown as one item)	$ -	$ 46,000.0	$ 12,575.2	$ 12,575.2	$ 10,000.0
12	Coverage for Lawfully-Present Immigrants between 100 Percent and 400 Percent FPL (prior years shown as one item)			$ 17,567.6	$ 17,567.6	$ 10,000.0
13	Coverage for DACA Recipients (prior years shown as one item)			$ 777.6	$ 777.6	$ 777.6
14	Subsidize Employees under 250 Percent FPL and National Guard TRICARE Plans			$ 13,509.9	$ 13,509.9	$ 13,509.0
15	Medicaid Expansion Population Coverage				$ 30,000.0	$ 30,000.0
16	**TOTAL RECURRING**	**$ 83,719.3**	**$ 148,028.5**	**$ 205,264.1**	**$ 235,264.1**	**$ 191,315.1**
17	**Nonrecurring**					
18	Medicaid Expansion Population Coverage (Recurring Special)	$ -	$ 30,000.0	$ 30,000.0	$ -	
19	Coverage for Lawfully-Present Immigrants Losing Medicaid Eligibility	$ -		$ 92,900.0	$ 92,900.0	
20	Coverage for Those Above 400 Percent FPL ($17.3 M from 1st Special Session 2025)		$ 17,300.0		$ 38,100.0	
22	Insurance Marketplace Affordability	$ -	$ 22,300.0			
23	Healthcare Affordability Fund Programs	$ -	$ 10,000.0			
24	Eliminate State Health Benefit Salary Tiers**	$ -	$ 36,214.1			
25	Subsidize Employees under 250 FPL and National Guard TRICARE Plans		$ 12,085.9			
26	Structural Deficit	$ -	$ 30,200.0			
27	GSD Employee Group Health Benefits Deficit	$ 25,000.0				
29	**TOTAL EXPENDITURES**	**$ 108,719.3**	**$ 306,128.5**	**$ 328,164.1**	**$ 366,264.1**	**$ 191,315.1**
30	**ENDING BALANCE**	**$ 200,108.8**	**$ 105,480.3**	**$ (7,283.8)**	**$ (45,383.8)**	**$ 129,565.2**

SOURCE: LFC Files, HCA Legislative Report, CREG projections

* Revenue updated based on December 2025 consensus revenue estimate.