

LEGISLATIVE FISCAL OFFICE

Fiscal Note



Fiscal Note On: **HB 406** HLS 06RS 724
 Bill Text Version: **ENROLLED**
 Opp. Chamb. Action:
 Sub. Bill For.:
 Proposed Amd.:

Date: June 22, 2006 7:39 AM	Author: DANIEL
Dept./Agy.: Treasury	Analyst: Evelyn McWilliams
Subject: Investment of Medicaid Trust for Elderly	

MEDICAID EN -\$6,898,430 SD RV See Note Page 1 of 1
 (Constitutional Amendment) Authorizes the investment of a portion of the Medicaid Trust Fund for the Elderly in equities

Provides for a constitutional amendment authorizing the investment of up to 35% of the Medicaid Trust Fund for the Elderly in equities.

Provides for submission of the proposed amendment to the voters at the statewide election to be held September 30, 2006.

EXPENDITURES	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>5 -YEAR TOTAL</u>
State Gen. Fd.	\$0	\$0	\$0	\$0	\$0	\$0
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	\$0
Annual Total	\$0	\$0	\$0	\$0	\$0	\$0

REVENUES	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>5 -YEAR TOTAL</u>
State Gen. Fd.	\$0	\$0	\$0	\$0	\$0	\$0
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	(\$6,898,430)	(\$6,580,304)	(\$6,236,729)	(\$5,865,667)	(\$5,464,920)	(\$31,046,050)
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	\$0
Annual Total	(\$6,898,430)	(\$6,580,304)	(\$6,236,729)	(\$5,865,667)	(\$5,464,920)	(\$31,046,050)

EXPENDITURE EXPLANATION

No direct fiscal impact on expenditures is anticipated. According to OPB, HB 1 includes \$44.4m of revenue from the Medicaid Trust Fund for the Elderly (\$17m from the fund's principal and \$27.4m from investment income). The \$17m from the fund's principal was added due to the re-basing of nursing homes. Another \$0.8 million of Trust Fund revenue is also included in HB 1 for the Treasurer's Office. However, to the extent that revenues for federal match funding are not available, either another source of funding will need to be used or expenditures will need to be adjusted.

REVENUE EXPLANATION

The average invested assets of the Medicaid Trust Fund for the Elderly is approximately \$845m. The average income yield on the current investments of the Trust is about 5.15% or approximately \$43.5m per year.

According to the Treasurer's Office, if 25% of the current assets, \$211.25m, were invested in equities such as the S&P 500 Index Fund the income yield is estimated at 1.81% or \$3.8m per year. In shifting \$211.25m in assets from fixed income securities to equity securities, the Trust Fund would forego the 5.15% currently earned on the \$211.25m, or approximately \$10.875m. In fiscal year 06-07, the difference in the income stream between fixed income securities (\$10.875m) and equities securities (\$3.8m) would be approximately \$7m. However, the size of the assets in the fund would increase from the growth of the equities in the fund. At an average growth rate of 8%, the equities assets would grow from \$211.25m at the beginning of fiscal year 06-07 to approximately \$310.4m by June 30, 2011. With the growth of the equities assets, the amount of income earned from the equities would increase, reducing the amount of annual income forgone as a result of shifting assets to equity securities from fixed income securities. Estimated assets based on an 8% annual growth and the anticipated income are as follows: FY 07-08 \$228.1m assets, \$4.1m income; FY 08-09 \$246.4m assets, \$4.5m income; FY 09-10 \$266.1m assets, \$4.8m income; FY 10-11 \$287.4m assets, \$5.2m income, FY 11-12 \$310.4m assets, \$5.6m income. The amounts reflected on the fiscal note are the approximate difference in the income stream between fixed income securities (\$10.875m) and the anticipated equities securities. This 8% growth is a change in the market/asset value of the equities and is not considered cash/income.

The 75% balance of the current assets, \$634m is expected to continue to yield annual earning of 5.15% or approximately \$32.6m annually. The total revenue anticipated in FY 07 is \$36.4 (\$32.6m fixed income and \$3.8 m equities income)

The amounts in the revenue table above reflect the assumptions made by the Treasurer's Office based upon current projections of long term equities returns.

Senate Dual Referral Rules

13.5.1 >= \$500,000 Annual Fiscal Cost

13.5.2 >= \$500,000 Annual Tax or Fee Change

House

6.8(F) >= \$500,000 Annual Fiscal Cost

6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease

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