LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 78TH LEGISLATIVE REGULAR SESSION

April 24, 2003

TO: Honorable Jaime Capelo, Chair, House Committee on Public Health

FROM: John Keel, Director, Legislative Budget Board

IN RE: **HB1545** by Raymond (Relating to a prescription drug purchasing program and an associated assistance program.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB1545, As Introduced: a positive impact of $145,949,790 through the biennium ending August 31, 2005.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2004	$51,042,704
2005	$94,907,086
2006	$116,655,793
2007	$116,655,793
2008	$116,655,793

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings from *GENERAL REVENUE FUND* 1	Probable Savings from *GR MATCH FOR MEDICAID* 758	Probable (Cost) from *GR MATCH FOR MEDICAID* 758	Probable Savings/(Cost) from *FEDERAL FUNDS* 555
2004	$6,280,000	$47,291,304	($37,179,263)	$15,338,841
2005	$6,280,000	$93,727,086	($73,774,481)	$36,569,648
2006	$28,100,000	$93,655,793	($73,722,243)	$33,387,256
2007	$28,100,000	$93,655,793	($73,722,243)	$33,387,256
2008	$28,100,000	$93,655,793	($73,722,243)	$33,387,256

Fiscal Year	Probable Revenue Gain/(Loss) from *FEDERAL FUNDS* 555	Probable Revenue Gain/(Loss) from *VENDOR DRUG REBATES-MEDICAID* 706
2004	$52,411,305	$34,650,663
2005	$105,129,311	$68,674,481
2006	$105,501,693	$68,622,243
2007	$105,501,693	$68,622,243
2008	$105,501,693	$68,622,243

Fiscal Analysis

The bill would require the Health and Human Services Commission (HHSC) to negotiate with manufacturers and labelers to obtain supplemental Medicaid rebates or discount prices for prescription drugs sold in Texas, including those sold to a publicly-funded entity. If HHSC and the manufacturer or labeler do not reach an agreement on supplemental Medicaid rebates or discount pricing for the state pharmaceutical assistance program, the products of the manufacturer or labeler shall be placed on the state's list of requiring prior authorization under the Medicaid program or any other state-funded program.

The bill would establish a state pharmaceutical assistance program for state residents to promote effective use of drugs by providing for the availability of discounted prices to program participants for each prescription drug available under an agreement with the commission. Program participants include state residents who qualify for the program procedures established by the commission, participates in any health program provided by a publicly-funded entity and is not covered by an insurance policy or health benefit plan, that provides benefits for prescription drugs.

Methodology

To estimate the cost and savings associated with the implementation of the proposal, Medicaid Vendor Drug Program expenditures are held at fiscal year 2003 levels.

It is assumed that the program would be implemented by March 1, 2004.

For the Vendor Drug Program, the market shift created through prior authorization is assumed based upon an 80 percent redirection to a 20 percent less expensive drug, approximately $43.9 million per year. Supplemental rebates are assumed to be negotiated at 10 percent and are calculated after reducing the drug expenditures by the savings due to redirection. It is assumed that supplemental rebates would be expended to offset program costs.

It is assumed that the administration of the program would require a Pharmacy Benefit Manager (PBM) to manage the prior authorization process, perform pharmacy liaison functions, and other administrative tasks. The PBM-associated costs are estimated to be $5 million per year.

This proposal is assumed to result in a reduction of drug prices at state agencies as follows: Department of Mental Health/Mental Retardation (5 percent), Department of Criminal Justice (2 percent), Department of Health (2 percent), Employees Retirement System (ERS) (5 percent), and Teachers Retirement System (TRS) (5 percent). It is assumed that ERS and TRS would not be able to participate until fiscal year 2006 due to contractual obligations.

Technology

The costs of the Department of Human Services (DHS) MIS automation for the Medicaid Vendor Drug Program are paid through the Health and Human Services Commission interagency contract with DHS and are included in this cost estimate at 1,000 programming hours at $100 per hour and 400 hours of programming changes to PRIMS at $26 per hour for a total cost or $110,400 for fiscal year 2004.

Local Government Impact

No significant fiscal implication to units of local government is anticipated.

Source Agencies: 327 Employees Retirement System, 501 Department of Health, 529 Health and Human Services Commission, 655 Department of Mental Health and Mental Retardation, 696 Department of Criminal Justice, 710 Texas A&M University System Administrative and General Offices, 720 The University of Texas System Administration

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