

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 78TH LEGISLATIVE REGULAR SESSION

April 1, 2003

TO: Honorable Dianne White Delisi, Chair, House Committee on State Health Care Expenditures, Select

FROM: John Keel, Director, Legislative Budget Board

IN RE: HB1804 by Delisi (Relating to operation of the Medicaid vendor drug program, including the adoption of a preferred drug list and the negotiation of supplemental drug rebates.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB1804, As Introduced: a positive impact of \$90,871,845 through the biennium ending August 31, 2005.

The bill would make no appropriation but could provide the legal basis for an appropriation of funds to implement the provisions of the bill.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2004	\$26,559,881
2005	\$64,311,964
2006	\$64,261,143
2007	\$64,261,143
2008	\$64,261,143

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings from <i>GR MATCH FOR MEDICAID</i> 758	Probable (Cost) from <i>GR MATCH FOR MEDICAID</i> 758	Probable Savings/ (Cost) from <i>FEDERAL FUNDS</i> 555	Probable Revenue Gain/(Loss) from <i>FEDERAL FUNDS</i> 555
2004	\$33,710,905	(\$19,791,664)	\$36,960,925	\$31,870,098
2005	\$66,811,964	(\$44,259,358)	\$39,169,648	\$63,884,460
2006	\$66,761,143	(\$44,227,594)	\$35,987,255	\$64,153,131
2007	\$66,761,143	(\$44,227,594)	\$35,987,255	\$64,153,131
2008	\$66,761,143	(\$44,227,594)	\$35,987,255	\$64,153,131

Fiscal Year	Probable Revenue Gain from <i>VENDOR DRUG REBATES- MEDICAID</i> 706
2004	\$12,640,640
2005	\$41,759,358
2006	\$41,727,594
2007	\$41,727,594
2008	\$41,727,594

Fiscal Analysis

The bill is similar to recommendation HHS 8, "Improve Purchasing of Prescription Drugs" from the Comptroller's e-Texas report, "*Limited Government, Unlimited Opportunity*".

The bill would require the Health and Human Services Commission (HHSC) to contract with a Pharmacy Benefit Manager (PBM) to establish a preferred drug list and negotiate rebates and discount prices for prescription drugs within Medicaid Vendor Drug Program. If the manufacturer does not agree to rebates or discount prices, the PBM would be required to place their products on a list requiring prior authorization in Medicaid. The bill differs with *e-Texas* HHS-8 in that HIV/AIDS mental health-related drugs are exempted from the preferred drug list.

Methodology

To estimate the cost and savings associated with the implementation of a preferred drug list, Medicaid Vendor Drug Program expenditures are held at fiscal year 2003 levels, \$721,723,593 in General Revenue.

It is assumed that HIV/AIDS and mental health-related drugs comprise approximately 17.2 percent of all Vendor Drug Program drug expenditures.

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

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 7.4 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 maintain the Preferred Drug List, 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.

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 PRIMIS at \$26 per hour for a total cost of \$110,400 for fiscal year 2004.

Local Government Impact

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

Source Agencies: 304 Comptroller of Public Accounts, 529 Health and Human Services Commission

LBB Staff: JK, JO, EB, KF, AJ