

LEGISLATIVE BUDGET BOARD  
Austin, Texas

FISCAL NOTE, 79TH LEGISLATIVE REGULAR SESSION

April 27, 2005

**TO:** Honorable Jane Nelson, Chair, Senate Committee on Health & Human Services

**FROM:** John S. O'Brien, Deputy Director, Legislative Budget Board

**IN RE: SB1581** by Zaffirini (Relating to the creation of a state pharmacy assistance program based on up-front discounts and to supplemental rebates obtained for prescription drugs provided under certain other state programs. ), **Committee Report 1st House, Substituted**

**Estimated Two-year Net Impact to General Revenue Related Funds** for SB1581, Committee Report 1st House, Substituted: a positive impact of \$11,863,604 through the biennium ending August 31, 2007.

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
2006	\$5,281,802
2007	\$6,581,802
2008	\$6,581,802
2009	\$6,581,802
2010	\$6,581,802

All Funds, Five-Year Impact:

Fiscal Year	Probable (Cost) from GENERAL REVENUE FUND 1	Probable Savings from GENERAL REVENUE FUND 1
2006	(\$2,800,000)	\$8,081,802
2007	(\$1,500,000)	\$8,081,802
2008	(\$1,500,000)	\$8,081,802
2009	(\$1,500,000)	\$8,081,802
2010	(\$1,500,000)	\$8,081,802

Fiscal Analysis

The bill would require the Health and Human Services Commission (HHSC) to establish a state pharmacy assistance program that provides prescription drug discounts. Individuals who qualify for mental health and mental retardation services from community centers, the Primary Health Care program, and the Indigent Health Care program would be eligible for the state pharmacy assistance program (SPAP). The HHSC Commissioner would have the authority to expand eligibility for the SPAP. The program would be funded with General Revenue or local funds only.

HHSC would only be required to implement a SPAP if it determines that sufficient discounts are available. If adequate discounts were not available, HHSC would be authorized to adopt a preferred drug list or impose prior authorization requirements. It is assumed that sufficient discounts would be

available and that HHSC would implement a SPAP. The bill would delete existing statutory provisions requiring HHSC to negotiate supplemental rebates for prescription drugs provided by any state program including community mental health centers and state mental health hospitals.

## **Methodology**

The SPAP would provide discounts on prescription drugs. It is assumed that the current payor for prescription drugs for individuals qualifying for mental health and mental retardation services from community centers, the County Indigent Health Care program, and the Primary Health Care program would continue to be the payor under the SPAP.

DSHS estimates annual General Revenue savings of \$7,985,624 on prescription drug expenditures for children and adults receiving community mental health services. This assumes a cost savings of 13 percent, which represents the average rebate savings experienced in the Kidney Health Care SPAP. However, some discounts are already provided to community mental health programs. According to DSHS, federal regulations may not allow for the designation of the community mental health program as a SPAP because it receives federal funding. DSHS also indicates that the reduction in expenditures on prescription drugs for individuals receiving community mental health services could result in the loss of federal mental health block grant funds due to maintenance of effort requirements if the savings were redirected to programs or services other than mental health program services.

No savings are assumed for prescription drug expenditures for individuals receiving mental retardation services from community centers. The Department of Aging and Disability Services (DADS) is unable to estimate the amount of General Revenue or local funds expended on these prescription drugs. DADS indicates that these expenditures are likely minimal.

DSHS estimates annual General Revenue savings of \$96,178 on prescription drug expenditures in the Primary Health Care program, assuming five percent savings. DSHS indicates that discounts are currently negotiated with pharmacies under the Primary Health Care program and that it is unknown whether additional savings could be achieved under a SPAP.

HHSC estimates annual General Revenue costs of \$1,500,000 to contract for negotiations with labelers, manufacturers, and wholesalers, based on similar costs for the Medicaid Preferred Drug List. The actual cost may depend on the volume and types of prescription drugs included in the program.

The bill could potentially impact other programs if the commissioner were to expand eligibility for the SPAP, however there is no estimate regarding potential expansions available at this time.

## **Technology**

HHSC estimates start-up programming and automation costs of \$1,300,000 in General Revenue in fiscal year 2006.

## **Local Government Impact**

The bill could result in savings to counties if counties are paying for prescription drugs for persons that would be eligible for discounts under the state pharmacy assistance program.

**Source Agencies:** 515 Board of Pharmacy, 529 Health and Human Services Commission, 537 Department of State Health Services, 539 Department of Aging and Disability Services

**LBB Staff:** JOB, CL, KF, SSt