

LEGISLATIVE BUDGET BOARD  
Austin, Texas

FISCAL NOTE, 82ND LEGISLATIVE REGULAR SESSION

April 5, 2011

TO: Honorable Lois W. Kolkhorst, Chair, House Committee on Public Health

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

IN RE: **HB3678** by Brown (Relating to implementation of certain cost-saving measures for the Medicaid vendor drug program and child health plan program prescription drug benefits.), As Introduced

**Estimated Two-year Net Impact to General Revenue Related Funds** for HB3678, As Introduced: a positive impact of \$70,367,678 through the biennium ending August 31, 2013.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2012	\$27,169,796
2013	\$43,197,882
2014	\$43,270,138
2015	\$43,270,138
2016	\$43,270,138

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings from General Revenue Fund 1	Probable Savings from Vendor Drug Rebates- Medicaid 706	Probable Savings from Federal Funds 555	Probable (Cost) from General Revenue Fund 1
2012	\$25,191,757	\$17,517,926	\$60,007,206	(\$1,348,361)
2013	\$40,517,514	\$27,142,787	\$91,353,332	(\$723,632)
2014	\$40,584,170	\$27,187,440	\$91,242,023	(\$723,632)
2015	\$40,584,170	\$27,187,440	\$91,242,023	(\$723,632)
2016	\$40,584,170	\$27,187,440	\$91,242,023	(\$723,632)

Fiscal Year	Probable (Cost) from Federal Funds 555	Probable Revenue Gain from Vendor Drug Rebates- Medicaid 706	Probable Revenue (Loss) from Vendor Drug Rebates- Medicaid 706	Change in Number of State Employees from FY 2011
2012	(\$934,058)	\$3,326,400	(\$17,517,926)	12.5
2013	(\$501,285)	\$3,404,000	(\$27,142,787)	12.5
2014	(\$501,285)	\$3,409,600	(\$27,187,440)	12.5
2015	(\$501,285)	\$3,409,600	(\$27,187,440)	12.5
2016	(\$501,285)	\$3,409,600	(\$27,187,440)	12.5

## **Fiscal Analysis**

The bill would require the Health and Human Services Commission (HHSC) to implement the following cost-saving measures for prescription drugs under the Medicaid and Children's Health Insurance Program (CHIP): (1) uniform limits on prescription drugs provided to Medicaid recipients, regardless of delivery model; (2) cost-containment strategies to manage drug benefits under Medicaid and CHIP; (3) cost-containment strategies to shift from brand name to generic prescription drug use to achieve a four percent or greater increase in generic and decrease in brand name prescription drugs under Medicaid and CHIP, as compared to fiscal year 2011; (4) program changes to maximize pharmaceutical manufacturer rebates for prescription drugs under Medicaid and CHIP.

## **Methodology**

HHSC assumes implementation of uniform limits regardless of delivery model would place a three-prescription limit on clients enrolled in health maintenance organizations who currently receive unlimited prescriptions; clients enrolled in fee-for-service and primary care case management (PCCM) are currently subject to a three-prescription limit. HHSC estimates a client services savings to the Medicaid program of \$97.4 million and a loss of drug rebates of \$42.1 million in fiscal year 2012 and subsequent fiscal years.

HHSC assumes that the requirement to manage prescription drug benefits under Medicaid and CHIP would allow the commission to increase use of over-the-counter ibuprofen suspension products, implement a diabetic supply program, and manage high-cost and specialty drugs for a total savings of \$5.4 million in fiscal year 2012 and \$11.3 million in fiscal year 2013 and subsequent years.

HHSC indicates that achieving a four percent or greater shift from brand-name to generic prescription drugs could seriously impair the performance of the existing preferred drug list (PDL) resulting in a loss of currently attained PDL savings. The commission has assumed a three percent shift and an implementation date of September 1, 2012 for a savings of \$50.4 million and a loss of drug rebates of \$21.4 million in fiscal year 2013 and subsequent years.

HHSC assumes that drug rebate collections could be increased in the area of drugs dispensed in physician offices with increased efforts to obtain the necessary information from all delivery models. HHSC estimates a gain of \$8.0 million in drug rebates in fiscal year 2012 and subsequent fiscal years could be achieved.

Total client services savings are estimated to be \$102.7 million in All Funds, including \$42.7 million in General Revenue Funds, in fiscal year 2012 and \$159.0 million in All Funds, including \$67.7 million in General Revenue Funds, in fiscal year 2013 and subsequent fiscal years. The total net loss of drug rebates is estimated to be \$34.1 million in fiscal year 2012 and \$55.8 million in fiscal year 2013 and subsequent fiscal years; the loss of revenue to the state associated with the net loss of rebates is estimated to be \$14.2 million in fiscal year 2012 and \$23.7 million in fiscal year 2013 and subsequent fiscal years.

According to HHSC, an additional 12.5 full-time equivalents would be needed in fiscal year 2012 and subsequent fiscal years to handle additional workload. HHSC estimates costs of \$1.1 million in fiscal year 2012 and \$1.0 million in fiscal year 2013 and subsequent fiscal years for additional staff. HHSC estimates additional administrative costs of \$1.2 million in fiscal year 2012 for modifications to the claims payment system and \$0.2 million in fiscal year 2013 and subsequent fiscal years for ongoing operations costs. The total administrative costs are estimated to be \$2.3 million in All Funds, including \$1.3 million in General Revenue Funds, in fiscal year 2012 and \$1.2 million in All Funds, including \$0.7 million in General Revenue Funds, in fiscal year 2013 and subsequent fiscal years.

## **Technology**

One-time costs to modify the claims payment system and technology-related costs for new staff are estimated to be \$1.3 million in fiscal year 2012. Ongoing technology costs associated with staff and operations costs are estimated to be \$0.3 million in fiscal year 2013 and subsequent fiscal years.

**Local Government Impact**

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

**Source Agencies:** 529 Health and Human Services Commission

**LBB Staff:** JOB, CL, LR, MB, NB