

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 83RD LEGISLATIVE REGULAR SESSION

April 16, 2013

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

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: **HB1137** by Davis, John (Relating to the use of maximum allowable cost lists under a Medicaid managed care pharmacy benefit plan.), **As Introduced**

The fiscal implications of the bill cannot be determined at this time, but are expected to have a significant negative impact to General Revenue Funds. HHSC does not have access to the information necessary to estimate the increased cost to Medicaid managed care premium payments under the provisions of the bill. There would also be costs related to additional full-time-equivalents to implement the provisions of the bill.

The bill adds new requirements related to outpatient pharmacy benefits provided through Medicaid managed care regarding the use of maximum allowable cost lists, including allowing a network pharmacy provider to appeal a denied challenge of a listed maximum allowable cost price to the Health and Human Services Commission (HHSC).

Managed care organizations (MCOs) contracted with HHSC develop their own reimbursement rates and methodologies. The maximum allowable cost lists used by MCOs and any subcontracted pharmacy benefit managers are considered proprietary and are not available to HHSC. Without access to the maximum allowable cost lists, HHSC cannot determine the impact of the provisions in the bill related to those lists. HHSC expects that the provisions would increase the amounts MCOs are required to reimburse pharmacy providers under Medicaid managed care; those increases would result in increases to the capitation rates paid to the MCOs, which would have a significant fiscal impact to General Revenue Funds and Federal Funds. The amount of the increase cannot be determined. Estimated capitation payments under Medicaid managed care total \$2.4 billion in All Funds in fiscal year 2014 and \$2.7 billion in All Funds in fiscal year 2015. Each one percent increase in those capitation payments would increase All Funds expenditures by \$24 million in All Funds, including \$10 million in General Revenue Funds, in fiscal year 2014 and \$27 million in All Funds, including \$11 million in General Revenue Funds, in fiscal year 2015.

Additionally, HHSC anticipates the number of appeals the agency will need to process will be significant, resulting in a need for 7.0 additional full-time equivalents at a cost of \$0.6 million each fiscal year. HHSC may also reverse denials made by the MCO, which could result in additional increases to capitation rates.

Local Government Impact

There could be a significant fiscal impact to units of local government to the extent that they are reimbursed for outpatient prescription drugs through Medicaid managed care and would experience a change in that reimbursement under the provisions of the bill.

Source Agencies: 529 Health and Human Services Commission

LBB Staff: UP, CL, MB, LR, NB