

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 84TH LEGISLATIVE REGULAR SESSION

April 6, 2015

TO: Honorable Myra Crownover, Chair, House Committee on Public Health

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: HB3366 by Sheffield (Relating to the reimbursement of prescription drugs under the Medicaid managed care and child health plan programs.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB3366, As Introduced: a negative impact of (\$65,299,118) through the biennium ending August 31, 2017.

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
2016	(\$20,524,893)
2017	(\$44,774,225)
2018	(\$44,786,092)
2019	(\$44,786,092)
2020	(\$46,143,275)

All Funds, Five-Year Impact:

Fiscal Year	Probable (Cost) from <i>GR Match For Medicaid 758</i>	Probable (Cost) from <i>GR Match For Title XXI 8010</i>	Probable (Cost) from <i>Federal Funds 555</i>	Probable Revenue Gain from <i>General Revenue Fund 1</i>
2016	(\$21,957,194)	(\$236,539)	(\$33,821,823)	\$1,251,630
2017	(\$46,431,888)	(\$419,068)	(\$71,819,317)	\$1,557,548
2018	(\$46,443,165)	(\$419,658)	(\$71,807,450)	\$1,557,548
2019	(\$46,443,165)	(\$419,658)	(\$71,807,450)	\$1,557,548
2020	(\$46,555,933)	(\$1,664,073)	(\$70,450,267)	\$1,557,548

Fiscal Year	Probable Revenue Gain from Foundation School Fund 193
2016	\$417,210
2017	\$519,183
2018	\$519,183
2019	\$519,183
2020	\$519,183

Fiscal Analysis

The bill would establish a new reimbursement methodology for prescription drugs under Medicaid managed care and the Children's Health Insurance Program (CHIP). The bill would require the Health and Human Services Commission (HHSC) to complete, or contract for, a study of the average cost of dispensing prescription drugs for pharmacies and pharmacists participating in Medicaid managed care and CHIP. HHSC would be required to request any necessary federal authorization or waiver and could delay implementation of any provision of the bill until such waiver or authorization is granted.

Methodology

According to information from HHSC, approximately 93.3 percent of pharmacy capitation payments under Medicaid managed care and CHIP are used to reimburse pharmacies. Those amounts would be expected to increase a net 4.3 percent under the provisions of the bill (the net increase would include a reduction to reimbursements for drug ingredient costs and an increase to drug dispensing fees). Medicaid managed care pharmacy capitation payments are assumed to be \$2,649.2 million in fiscal year 2016 and \$2,810.8 million in fiscal years 2017 through 2020. CHIP pharmacy capitation payments are estimated to be \$132.8 million in fiscal year 2016 and \$147.1 million in fiscal years 2017 through 2020. No additional populations are assumed to be capitated in fiscal years 2016 through 2020, which would increase the cost. It is assumed that fiscal year 2016 pharmacy capitation rates will be set before the effective date of the bill and HHSC indicates the managed care organizations and pharmacy benefit managers will need to make significant system changes to accommodate the revisions to reimbursement methodology; therefore, it is assumed that a mid-year rate adjustment will occur in March 2016 to implement the new reimbursement methodology and that only 50 percent of estimated fiscal year 2016 pharmacy capitation payments will be affected by the new methodology. The total estimated increase to Medicaid and CHIP pharmacy capitation payments is estimated to be \$55.8 million in All Funds, including \$22.1 million in General Revenue Funds, in fiscal year 2016 and \$118.7 million in All Funds in fiscal years 2017 through 2020. The cost to General Revenue Funds is estimated to be \$46.9 million in fiscal years 2017 through 2019 increasing to \$48.2 million in fiscal year 2020 due to the loss of a 23 percentage point increase to the Enhanced Federal Medical Assistance Percentage (EFMAP) expected for federal fiscal years 2016 through 2019. The increased pharmacy capitation payments are assumed to result in an increase to insurance premium tax revenue, estimated as 1.75 percent of the increased expenditures. Revenue is adjusted for assumed timing of payments (payments are due March 1 of the following calendar year, but prepayment is required March 1 and August 1) resulting in assumed increased collections of \$1.7 million in fiscal year 2016 and \$2.1 million in fiscal year 2017 and beyond. Pursuant to Section 227.001(b), Insurance Code, 25 percent of the revenue is assumed to be deposited to the credit of the Foundation School Fund. According to HHSC, the study is expected to cost \$210,000 in All Funds, including \$104,152 in General Revenue Funds in fiscal year 2016.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 529 Health and Human Services Commission

LBB Staff: UP, NB, WP, LR, CH