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FISCAL IMPACT REPORT

SPONSOR	<u>Feldman</u>	ORIGINAL DATE	<u>01-18-08</u>	HB	<u></u>
		LAST UPDATED	<u></u>		
SHORT TITLE	<u>Health Care Supply Bulk Purchasing Task Force</u>			SJM	<u>5</u>
		ANALYST	<u>Padilla</u>		

SOURCES OF INFORMATION

LFC Files

Responses Received From

Department of Health (DOH)

Health Policy Commission (HPC)

SUMMARY

Synopsis of Bill

Senate Joint Memorial 5 proposes that the New Mexico Health Policy Commission (HPC) be requested to convene a task force to identify state departments and publicly funded health care agencies that could participate in bulk purchasing of durable medical equipment, health care supplies and pharmaceuticals, and plan a management system, timetable and quality control mechanisms for bulk purchasing.

SJM5 further proposes that the task force report its findings to the Interim Legislative Health and Human Services Committee no later than August 31, 2009 and that a copy of the memorial be transmitted to the director of the HPC.

FISCAL IMPLICATIONS

The HPC indicates that it would have expenditures in providing administrative and operational support including convening meetings concerning suppliers, purchasers, establishing roles and responsibilities, setting timetables, order and payment process, and recommendations for ensuring compliance with all procurement rules and statutes.

Furthermore, the HPC is required to report its findings to the Legislative Health and Human Services Committee by August 31, 2009.

SIGNIFICANT ISSUES

SJM5 proposes that publicly funded health care agencies and state departments can increase their market clout when purchasing durable medical equipment, health care supplies and pharmaceuticals by acting as a single bulk-purchasing unit. Manufacturers and distributors are more likely to negotiate favorable pricing with larger-volume purchasing units resulting in

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decreased administrative fees as economies of scale favor the bulk purchasing mechanism. A single purchasing-management system utilizing the industry's best practices to include preferred equipment, supply and pharmaceutical lists and formularies could amount to cost savings while protecting patient choices.

The HPC notes that even though SJM 5 has not quantified or produced a cost savings analysis nor the benefits of increased selection, page 2, lines 16 through 20 states, "Whereas, many states, including New Mexico, Alaska, Georgia, Delaware, Hawaii, Minnesota, Missouri, Nevada, New Hampshire, Ohio, Vermont and West Virginia, have realize savings by consolidating pharmaceutical purchases for employees and Medicaid pools."

The Department of Health (DOH), Office of Facilities Management indicates that it oversee seven health care facilities and serves approximately 3,000 individuals at any given period through myriad programs including mental health, substance abuse, nursing homes, rehabilitation and the provision of residential and community-based services for developmentally disabled adults. Accordingly, the DOH under the Public Health Division currently utilizes bulk purchasing for pharmaceuticals and healthcare supplies as well as other price agreements to secure reduced costs for pharmaceuticals and medical supplies and the items are used throughout local public health offices as well as some healthcare providers delivering services on behalf of the Department through contractual arrangements.

The DOH further indicates that the benefits of bulk purchasing will only be effective if enough entities are purchasing the same items for similar populations or if there are no prohibitions against using those items across different populations. Accordingly, the Public Health Division's formulary for pharmaceuticals is limited to the client base served.

PERFORMANCE IMPLICATIONS

The DOH indicates that SJM 5 is in keeping with its mission to improve health services systems and with the Office of the Facilities Management's strategies to employ best health care practices.

The HPC states that it would need to convene and staff a task force that will create standards for the bulk processing system, process, and controls.

ADMINISTRATIVE IMPLICATIONS

The DOH indicates that it will have to assign staff to participate in the task force activities.

OTHER SUBSTANTIVE ISSUES

The HPC points out that research has shown those who consolidate their purchasing, experience considerable financial and administrative benefits. A national purchasing group exists that has agreements with major pharmaceutical distributors and medical/surgical suppliers with the agreements designed to lower surgical procedure costs by replacing custom procedure trays with best practice trays, standardizing line items used in certain popular surgical packs. A savings of 28 percent is quantified in several member hospitals according to Premier Purchasing News in the October 2006 publication.

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The HPC further states that research is necessary to study and calculate the total amount of cost savings, cost and time to implement, monitor, and track performance. Also, it is necessary to determine legal and accounting issues and consideration for each of the state departments and publicly funded health care agencies on the funding and payment process to acquisition and possession of the inventory asset. Moreover, additional research and study is necessary to determine the procurement needs of each of the entities participating in terms of products, services, delivery, and acceptance of products, payment methods, and options to others.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

The HPC would not convene a task force to identify state departments and publicly funded healthcare agencies to participate in bulk purchasing of durable medical equipment, health care supplies and pharmaceuticals. The state departments and publicly funded healthcare agencies would maintain the current procurement process.

The HPC further states that health care agencies will be missing out of possible purchasing power savings and increased selection of both products and services that are afforded large bulk purchasers.

AMENDMENTS

The DOH proposes in its analysis that a change in language be made to the Memorial on page 1, line 18, wherein “market clout when purchasing” should state “purchasing power when procuring.”

POSSIBLE QUESTIONS

Will the State of New Mexico, its health care entities, and its citizens benefit from a bulk purchasing mechanism?

JRP/nt