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FISCAL IMPACT REPORT

SPONSOR	<u>SPAC</u>	ORIGINAL DATE	02/13/17	
		LAST UPDATED	03/17/17	HB
				<u>354/SPACS/aSJC</u>
SHORT TITLE	<u>Interagency Pharmaceutical Purchasing Council</u>	SB		<u>/aHAFC</u>
		ANALYST		<u>Hanika-Ortiz</u>

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY17	FY18	FY19	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total		see fiscal impact				

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

General Services Department (GSD)

SUMMARY

Synopsis of HAFC Amendment

The House Appropriations and Finance Committee Amendment strikes language relating to benchmarking to Veterans Affairs pricing and provides that HSD seek federal authorization prior to making any changes to medical assistance pharmaceuticals purchasing or pharmacy benefits.

Significant Issues

The HAFC amendment appears to address concerns posed by pharmaceutical companies related to benchmarking state purchasing of prescription drugs to federal Veterans Affairs pricing.

Synopsis of SJC Amendment

The Senate Judiciary Committee amendment removes redundant language relating to the requirement that a quorum of voting members must be present at meetings or is required for any action to be taken because the council meetings would be subject to the Open Meetings Act.

Synopsis of SPAC Substitute

The Senate Public Affairs Committee Substitute for SB 354 creates the interagency pharmaceuticals purchasing council, administratively attached to GSD. The council is tasked with coordinating cost-containment strategies for the statewide procurement of pharmaceuticals

and pharmacy benefits management. The GSD secretary is named as the director of the council.

The council includes membership from eleven state agencies and other governmental entities. The council will be required to convene its first meeting before September 1, 2017 and meet quarterly thereafter, and a majority of the voting members of the council constitutes a quorum.

Finally, the bill makes council meetings subject to the Open Meetings Act and requires LFC to be notified of the meetings, and review and validate the council's progress on an annual basis.

FISCAL IMPLICATIONS

SB 354 does not require cost savings as it pertains to pharmaceutical drug purchasing. It only creates a council to meet quarterly to continue cost-containment discussions and explore pooling opportunities, as agency resources allow. However, depending upon recommendations suggested by the council, the savings for the state could be significant. According to some reports, bulk savings alone are limited but real: about 2 to 5 percent of spend. According to LFC evaluation unit publications, in FY16, state agencies spent a combined total of about \$680 million, up from \$442 million in FY14, or an increase of 54 percent. Using these metrics, this suggests that the state could save between \$13 million and \$34 million annually with bulk purchasing alone.

GSD estimated that coordination of dates, publishing notice, organizing agendas and materials will require up to 240 hours per year of support staff time. Adding to costs, GSD anticipates that pharmacy benefits consultants would need to be retained because no one agency has the subject matter expertise or the insights that would apply across other sectors of healthcare delivery.

The New Mexico Retiree Health Care Authority, New Mexico Public School Insurance Authority, General Services Department and Albuquerque Public Schools are members of the interagency benefits advisory committee (IBAC). Combined, these 4 agencies are governed by the Health Care Purchasing Act (HCPA) which requires the collaboration of resources toward the procurement of medical, prescription drugs, and pharmacy benefits management (PBM).

This year, IBAC will issue its 3rd request for proposals (RFP) for a pharmacy benefits manager for the next 4 year cycle. The IBAC's first RFP saved \$50 million over the term of the contract. Express Scripts, the current pharmacy benefits manager for the IBAC, combines the purchasing power of its 95 million members with that of the IBAC's 200 thousand members. This has contributed to the IBAC gaining access to aggressive pricing strategies and cost-containment.

The NM Department of Health uses group purchasing organizations (GPOs) for access to drug pricing. The department has 340B registrations in place for the Tuberculosis, Sexually Transmitted Disease and Family Planning programs, as well as the Minnesota Multistate Contracting Alliance for Pharmacy (MMCAP) GPO for non-340B qualifying services. MMCAP is a free, voluntary group purchasing organization for government facilities. However, MMCAP does not serve Medicaid programs. Across states, however, GPOs for Medicaid programs have been created. New Mexico is not a member of any Medicaid pharmaceutical purchasing pools.

Nationally, pharmacy spending for Medicaid health plans increased 5.5 percent in 2016, according to a new report from PBM Express Scripts, driven largely by a 4.3 percent increase in unit costs for medications from brand price inflation and formulary management limitations.

SIGNIFICANT ISSUES

Under the substitute bill, constituent agencies shall make their own procurement decisions.

In a 2015 LFC program evaluation of the Centennial Care Medicaid managed care program, staff lauded the IBAC's ability to negotiate a cost-effective option for Hepatitis C treatment for its plans. Staff recommended HSD should negotiate a lower rate for pharmaceutical drugs related to high cost treatments such as Hepatitis C as done by IBAC for New Mexico public employees, and should require actuaries to incorporate pharmaceutical discounts into the rate setting process.

In a subsequent 2016 LFC Health Note addressing maximizing state purchasing power related to prescription drug costs, staff highlighted various cost control mechanisms including use of formularies, prior authorization, cost sharing, dispensing limits, drug utilization reviews and medication adherence programs, bulk purchasing, and the use of PBM's. The document goes on to discuss HSD's use of a risk corridor for Hepatitis C drugs, where the state and the contractor share additional costs or enjoy shared savings should they materialize. Lastly, the Health Note advised that states can increase price transparency through legislation and increase negotiation power through collaborative purchase as is used by the IBAC, or by joining purchasing pools.

ADMINISTRATIVE IMPLICATIONS

State agencies that responded to the original bill and the Risk Management Division in committee testimony indicated support for the concept but concern over the additional workload.

GSD suggested that the bill represents an inappropriate extension of legislative authority to "validate" the council's progress. On the other hand, the mission of LFC is to provide the Legislature with objective fiscal and public policy analyses, recommendations, and oversight of state agencies to improve performance and to ensure accountability through the effective allocation of resources for the benefit of all New Mexicans.

ALTERNATIVES

GSD suggested combining similar prescription drug delivery streams (like adding UNM's health plan to the IBAC), as opposed to combining heterogeneous programs together for analysis.

AHO/jle/sb/al