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## FISCAL IMPACT REPORT

ORIGINAL DATE 2/16/2016

SPONSOR HHC LAST UPDATED \_\_\_\_\_ HM CS/86/HHCS

SHORT TITLE Study Prescription Drug Costs & Purchasing SB \_\_\_\_\_

ANALYST Leger/Courtney

### ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY16	FY17	FY18	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
<b>Total</b>	NFI	NFI		NFI* (See Fiscal Implications)	Recurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

Relates to HJM 4

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

Corrections Department  
Public School Insurance Authority  
Office of the State Auditor  
Retiree Health Care

#### No Responses Received From

Department of Health

### SUMMARY

#### Synopsis of Memorial

House Health Committee Substitute for House Memorial 86 requests that the Legislative Finance Committee (LFC) staff analyze and make recommendations regarding prescription drug costs and possibilities for maximizing the use of discount drug pricing available under federal law and leveraging the state's purchasing power, and requests the Office of the State Auditor to assess, for possible designation for a special audit, agencies with prescription drug purchasing practices.

## **FISCAL IMPLICATIONS**

LFC's operating budget can absorb the costs associated with the proposed study. The study could be included in the LFC's Program Evaluation and analyst work plans that are approved by the committee.

## **SIGNIFICANT ISSUES**

The memorial calls for the LFC to conduct a follow-up to its 2013 evaluation of the Interagency Benefits Advisory Committee (IBAC). The LFC has conducted a follow-up and released it in August of 2015. The progress report of the IBAC evaluation found while member agencies are investigating cost-saving measures mostly focused on value-based purchasing of health care services, no major changes had been enacted to reduce health care cost growth. The progress report also noted the IBAC was successful in negotiating a price of \$50 thousand per-patient for Hepatitis C treatment. Additionally, a 2015 program evaluation of Centennial Care cited the success of the IBAC in negotiating lower drug prices for Hepatitis C and also found Medicaid built in a per-patient cost for Hepatitis C treatment of \$93 thousand in managed care capitation rates resulting in a total cost of \$140 million for CY15. The New Mexico Corrections Department estimates it will cost an average of \$92 thousand to treat Hepatitis C in correctional facilities.

## **PERFORMANCE IMPLICATIONS**

The Office of the State Auditor welcomes participation on the items proposed in the memorial, and hopes to provide information and data that will facilitate efficient and effective communication and collaboration among the key stakeholders on this critical issue.

The New Mexico Corrections Department reports a possible reduction in operational costs if drug prices are reduced as a result of this memorial.

## **ADMINISTRATIVE IMPLICATIONS**

The mission of the 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. The LFC consistently produces evaluations on a number of policy issues.

LFC staff have performed two separate program evaluations (in 2010 and 2013) on member agencies of the Interagency Benefits Advisory Committee (IBAC), comprised of the Risk Management Division of the General Services Department, the New Mexico Public School Insurance Authority, the New Mexico Retiree Health Care Authority and Albuquerque Public Schools. Both evaluations found growing pharmaceutical costs were among the drivers of increased overall health care costs to the state as well as public employees. All four IBAC member agencies contract with the same pharmaceutical benefits manager, but do not consolidate purchasing of pharmaceutical drugs. Both evaluations recommended a full consolidation of IBAC member agencies into a single healthcare authority to maximize economies of scale in negotiating health care prices.

**RELATIONSHIP**

House Health Committee (HHC) Substitute for House Memorial 86 is similar to HHC substitute for HJM4, which requests LFC staff perform an evaluation of pharmaceutical pricing and make recommendations to mitigate the effects of rising pharmaceutical prices.

**OTHER SUBSTANTIVE ISSUES**

LFC has broad statutory authority to examine and evaluate the finances and operation of all departments, agencies, and institutions of New Mexico and all of its political subdivisions (Section 2-5-3 NMSA 1978). However, some of the entities identified by the memorial may not be subject to the statutory authority of LFC.

JLL/jo/al