

May 9, 2017

The Honorable Daniel Hawkins, Chairperson
House Committee on Health and Human Services
Statehouse, Room 521-E
Topeka, Kansas 66612

Dear Representative Hawkins:

SUBJECT: Fiscal Note for HB 2300 by House Committee on Health and Human Services

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2300 is respectfully submitted to your committee.

HB 2300 would enact the Rx Transparency Act that would establish Pharmacy Benefit Manager (PBM) contract requirements for the State Employee Health Plan. The State Employee Health Plan is administered by the Kansas Department of Health and Environment (KDHE), Division of Health Care Finance. The bill would require the passing on of savings from any negotiated contracts to the covered entity. KDHE, as the covered entity, would have to audit and provide oversight of PBM financial activities. The bill would prohibit PBMs from owning mail and specialty pharmacies and would prohibit the state's current PBM, and most first and second tier PBMs, from serving as the state's PBM. The bill would also require the PBM to be a fiduciary to the state plan.

KDHE indicates that the enactment of HB 2300 would create additional administrative costs, including the addition of a 0.50 FTE Pharmacist position to audit and provide oversight of the financial activities of the state's PBM. The position would be funded 75.0 percent from federal funds and 25.0 percent from the State General Fund and would cost \$64,610, including \$16,152 from the State General Fund in FY 2018 and \$65,096, including \$16,274 from the State General Fund in FY 2019. In addition, the PBM requirements are likely to limit the pool of bidding PBMs and would reduce the level of competition and cost savings for the state. KDHE states that based on past experience, smaller PBMs cannot compete with the larger PBMs in pricing. It is estimated that reduced discounts and rebates could increase drug costs from 10.0 to 20.0 percent. For FY 2018, this increase would be between \$9.0 million and \$18.0 million. The requirement that the PBM be a fiduciary to the State Plan would increase administrative costs which would likely be passed on to the state. Increased administrative costs are estimated to

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range from 1.0 to 2.0 percent of the drug costs, or from \$1.0 million to \$2.0 million in FY 2018. KDHE estimates increased total costs in the out years 10.0 percent annually.

In addition, there are 173 non-state public employers covered under the State Employee Health Plan. The cost to these local governments could increase because of HB 2300; however, an estimate of the increase cannot be made. Any fiscal effect associated with HB 2300 is not reflected in *The FY 2018 Governor's Budget Report*.

Sincerely,

A handwritten signature in black ink, appearing to read "Shawn Sullivan", with a long horizontal line extending to the right.

Shawn Sullivan,
Director of the Budget

cc: Dan Thimmesch, Health & Environment