SB 434

Department of Legislative Services

Maryland General Assembly
2002 Session

FISCAL NOTE

Senate Bill 434 (Senator Frosh)
Finance

Prescription Drug Discounts and Rebates - Additional Authority

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This bill authorizes the Secretary of Health and Mental Hygiene to negotiate discount prices or rebates for prescription drugs from drug manufacturers and labelers.

Fiscal Summary

State Effect: Department of Health and Mental Hygiene (DHMH) nonbudgeted revenues could increase by an estimated $9.41 million in FY 2003. DHMH general fund expenditures could increase by $386,800 in FY 2003. Future year estimates reflect annualization and inflation.

($ in millions)	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
NonBud Rev.	$9.41	$10.82	$12.45	$14.31	$16.46
GF Expenditure	.39	.42	.43	.45	.46
Net Effect	$9.02	$10.40	$12.01	$13.87	$16.00

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: If DHMH and a drug manufacturer or labeler fail to reach an agreement on supplemental rebates or discounts, DHMH may review whether to place the manufacturer's or labeler's drugs on a prior authorization list for the Medicaid program or take similar actions involving formularies for any other State-authorized prescription drug program. DHMH must release the names of manufacturers and labelers that do not enter into a rebate agreement and distribute this information to doctors, pharmacists, and other health care professionals.

Current Law: DHMH does not have specific authority to negotiate supplemental rebates or discounts on prescription drugs.

The federal Omnibus Budget Reconciliation Act (OBRA) of 1990 requires drug manufacturers to enter into rebate agreements with the federal government for states to receive federal funding for outpatient prescription drugs dispensed to Medicaid enrollees.

Background: The federal Medicaid Drug Rebate Program was enacted to save money for the Medicaid program after federal officials realized drug manufacturers were providing greater price discounts to high-volume purchasers, such as HMOs and hospitals. Generally, drug rebates are based on a fixed percentage of the average price paid by wholesalers. Approximately 500 pharmaceutical companies participate in this program. All 50 states and the District of Columbia cover drugs under the Medicaid program. Some states, such as Florida and Michigan, have developed programs to negotiate enhanced rebates from drug manufacturers.

State Revenues: DHMH nonbudgeted revenues could increase by approximately $9,411,600 in fiscal 2003, which accounts for the bill's October 1, 2002 effective date. This estimate assumes:

- Medicaid prescription drug expenditures are $313,720,000 in fiscal 2003;
- Maryland Pharmacy Assistance Program (MPAP) prescription drug expenditures are $78,430,000 in fiscal 2003;
- new rebates average 4% of Medicaid and MPAP drug expenditures (or $15,686,000 total); and
- DHMH must refund half of rebates received under the Medicaid program, or $6,274,400, to the federal government.

Under federal law, DHMH must pay 50% of rebate revenues received in the Medicaid program back to the federal government. Future year revenue estimates reflect 15% annual prescription drug cost inflation.

State Expenditures: DHMH general fund expenditures could increase by an estimated $386,819 in fiscal 2003, which reflects the bill's October 1, 2002 effective date. It includes the cost of contracting to negotiate higher rebates, and hiring one pharmacist, one administrative clerk, and one supervisor to staff a pharmaceutical and therapeutics (P&T) committee necessary to carry out the bill's requirements. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Salaries and Fringe Benefits	$118,149
Contract to Negotiate Rebates	250,000
Operating Expenses	18,670
Total FY 2003 State Expenditures	**$386,819**

Future year expenditures reflect: (1) full salaries with 3.5% annual increases and 3% employee turnover; and (2) 1% annual increases in ongoing operating expenses.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Health and Mental Hygiene (Medicaid), National Governors Association, Department of Legislative Services

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