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FISCAL NOTE

Drafting Number:	LLS 19-0095	Date:	April 2, 2019
Prime Sponsors:	Rep. Jackson; Jaquez Lewis Sen. Ginal; Donovan	Bill Status:	House Health & Insurance
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Bill Topic: PRESCRIPTION DRUG COST REDUCTION MEASURES

Summary of Fiscal Impact:

<input checked="" type="checkbox"/> State Revenue	<input type="checkbox"/> TABOR Refund
<input checked="" type="checkbox"/> State Expenditure	<input checked="" type="checkbox"/> Local Government
<input checked="" type="checkbox"/> State Diversion	<input type="checkbox"/> Statutory Public Entity

This bill requires health insurers, drug manufacturers, pharmacy benefit management firms, and certain nonprofit organizations to report information related to prescription drug costs to the Department of Regulatory Agencies. The bill increases state revenue and expenditures beginning in FY 2020-21, may trigger a diversion from the General Fund in initial implementation years, and may impact local governments.

Appropriation Summary: For FY 2019-20, the bill requires an appropriation of \$121,763 to the Department of Regulatory Agencies.

Fiscal Note Status: This fiscal note reflects the introduced bill.

**Table 1
State Fiscal Impacts Under HB 19-1296**

		FY 2019-20	FY 2020-21
Revenue	General Fund	up to \$20,000	up to \$20,000
	Cash Funds	\$136,000	\$67,000
	Total	up to \$156,000	up to \$87,000
Expenditures	Cash Funds	\$121,763	\$55,729
	Centrally Appropriated	\$14,427	\$11,131
	Total	\$136,190	\$66,860
	Total FTE	0.9 FTE	0.7 FTE
Diversions		-	-
TABOR Refund		-	-

Summary of Legislation

This bill requires reporting on prescription drug costs in order to promote cost reduction. The specific requirements of the bill are outlined below.

Reporting. The Commissioner of Insurance (commissioner) in the Department of Regulatory Agencies (DORA) is required to receive the following reports related to prescription drug costs beginning in 2020. Prescription drug manufacturers must also submit certain reports to health insurers, pharmacy benefit management firms (PBMs), and other purchasers, as discussed below.

- *Health insurers.* Health insurers must annually report to the DOI, concurrent with their rate filing, on covered prescription drugs that the plan paid for in the preceding calendar year, including information about rebates received from prescription drug manufacturers, a certification regarding how rebates were accounted for in insurance premiums, and a list of all PBMs they contracted with.
- *Prescription drug manufacturers.* Prescription drug manufacturers must annually report to the DOI when they increase the price of certain prescription drugs by more than specified amounts or introduce a new specialty drug in the commercial market. They must also report to the DOI within 15 days after the end of each calendar quarter regarding the drugs about which the manufacturer notified purchasers.
- *Health insurers and pharmacy benefit management firms.* Health insurers and PBMs, if applicable, must annually report specified information regarding rebates and administrative fees received from manufacturers for prescription drugs for which they received the required notice.
- *Nonprofit organizations.* Certain nonprofit organizations are required to annually report on the amount of each payment, donation, subsidy, or thing of value received by the organization or its leadership from a prescription drug manufacturer, PBM, or health insurer and the percentage of the organization's total gross income that is attributable to those payments, donations, subsidies, or things of value.

The commissioner is required to post these reports on Division of Insurance's (DOI's) website, excluding any information that is proprietary. The commissioner or a third-party contractor is required to analyze the data received to determine the effect of prescription drug costs on health insurance premiums, and publish and present an annual report to the Governor and the General Assembly during DORA's SMART Act hearing.

Rulemaking and filing fees. The commissioner may adopt rules as necessary to implement the requirements of the bill, including rules that specify the form and manner in which reports are submitted. The commissioner must also establish a filing fee to be paid by health insurers, manufacturers, and PBMs to cover DOI's costs to implement the bill. In adopting rules, the commissioner may consult with the Pharmacy Board, the Secretary of State's office, the Department of Health Care Policy and Financing, the Department of Corrections, the Department of Human Services, and the Department of Personnel and Administration.

Prohibition on retroactive payment reduction. PBMs are prohibited from retroactively reducing the payment provided on a clean claim submitted by a pharmacy unless the PBM determines, through an audit conducted in accordance with state law, that the claim was not a clean claim. Health insurers that contract with PBMs must ensure that the PBMs are complying with this prohibition and reporting requirements and are subject to penalties for failure to do so.

Cost sharing. Health insurers are required to reduce the cost sharing a covered person is required to pay for prescription drugs by an amount equal to the greater of 51 percent of the average aggregate rebates received by the insurer for all prescription drugs, including price protection rebates, or an amount that ensures cost sharing will not exceed 125 percent of the insurer's cost for the prescription drug.

Enforcement. Any entity required to make notifications, submit reports, or pay filing fees under the bill is subject to discipline and, in some cases, penalties up to \$10,000 per day, for any failure to adhere to requirements, to be enforced by the Pharmacy Board. These cases may be appealed in district court.

State Revenue

This bill is anticipated to increase state cash fund revenue by up to \$136,000 in FY 2019-20, and up to \$67,000 in FY 2020-21, to the DOI Cash Fund. The bill may also increase General Fund revenue from civil penalties, estimated at up to \$20,000 per year, and court filing fees, minimally. These revenue sources are subject to TABOR; however, under the March 2019 Legislative Council Staff forecast, a TABOR surplus is not expected in FY 2019-20 or FY 2020-21.

Fee impact. Colorado law requires legislative service agency review of measures which create or increase any fee collected by a state agency. These fee amounts are estimates only, actual fees will be set through rule by the DOI based on fund balance, program costs, and the number of health insurers, drug manufacturers, PBMs, and nonprofit organizations subject to the fee. There are approximately 500 health insurers regulated by DOI and approximately 30 in-state drug manufacturers, but it is unknown how many other drug manufacturers, PBMs, and nonprofit organizations will be subject to the fee as of this writing. Table 2 identifies the fee impact of this bill.

Table 2
Fee Impact Under HB 19-1296

Fiscal Year	Type of Fee	Estimated Fee	Number Affected	Total*
FY 2019-20	Filing fee	\$256	at least 530	\$136,000
FY 2020-21	Filing fee	\$126	at least 530	\$67,000

* Totals have been rounded.

Fine revenue. The bill may increase state fine revenue from penalties beginning in FY 2019-20. It is assumed any fine revenue is deposited into the General Fund. The Pharmacy Board has discretion on imposing a fine up to \$10,000 per day. Assuming a high level of compliance by health insurers, drug manufacturers, PBMs, and nonprofit organizations, it is estimated that fine revenue generated will be less than \$20,000 per year.

Court filing fees. To the extent that cases are appealed to the district court, the bill may increase state revenue from filing fees, which are deposited into various cash funds in the Judicial Department. For informational purposes, the district court filing fee is \$235.

State Diversions

Typically, a General Fund diversion occurs when the DOI's costs increase, as the division is funded with insurance premium tax revenue that would otherwise be credited to the General Fund. However, it is expected that this bill will be funded from filing fees deposited directly into the DOI Cash Fund, so it is unlikely that such a diversion will take place. However, if the fees are not in place through rule by January 2020, or are otherwise insufficient to cover the costs under the bill, a diversion from the General Fund to the DOI Cash Fund may occur.

State Expenditures

The bill will increase state cash fund expenditures from the DOI Cash Fund by \$136,190 and 0.9 FTE in FY 2019-20, and \$66,860 and 0.7 FTE in FY 2020-21. The bill's cost sharing and reporting requirements may increase the premium costs for the state employee health insurance. To the extent the bill is effective in reducing prescription drug costs, state agencies that purchase prescription drugs may see a cost savings. The bill also creates a minimal workload increase for the Judicial Department and for state agencies consulted about the bill's implementation. These impacts are shown in Table 3 and discussed below.

**Table 3
 Expenditures Under HB 19-1296**

	FY 2019-20	FY 2020-21
Department of Regulatory Agencies		
Personal Services	\$68,190	\$52,040
Operating Expenses and Capital Outlay Costs	\$5,558	\$665
Computer Programming and Maintenance	\$48,015	\$3,024
Centrally Appropriated Costs*	\$14,427	\$11,131
Total Cost	\$136,190	\$66,860
Total FTE	0.9 FTE	0.7 FTE

* Centrally appropriated costs are not included in the bill's appropriation.

Division of Insurance — DORA. Initially, the bill requires the DOI to perform rulemaking and to collect, analyze, and report on a large amount of data relating to prescription drug pricing. In FY 2019-20, the fiscal note estimates that the following staff levels are required: a Statistical Analyst II (0.2 FTE), a Rate/Financial Analyst IV (0.5 FTE), and an Actuary II (0.2 FTE).

- *Computer programming and maintenance.* The Office of Information Technology, in consultation with DOI, will develop a database to automate the collection and posting of required price increase notices and to maintain updated purchaser information. This will require 291 hours of programming at a rate of \$165 per hour. These funds will be reappropriated to OIT.

- *Enforcement.* Workload will increase for the division to conduct enforcement actions as needed to ensure implementation and compliance with this legislation, including enforcement of rebates. The fiscal impact of these actions will depend on many factors, in particular the number of violations reported to or identified by the DOI and, in the case of rebates, the ability for the DOI to collect necessary information. Any costs associated with enforcement are expected to be incurred by those regulated under the bill through filing fees. Any necessary cash fund spending authority will be addressed through the annual budget process.

State employee insurance. The bill's cost sharing and reporting requirements will increase health insurance costs which may increase health insurance premiums paid by state agencies for state employee group health insurance. Because state employee health insurance contributions are based upon prevailing market rates, with costs shared between the employer and employee, this bill is not expected to affect the state's share of employee health insurance premiums until FY 2020-21. Because insurance rates are influenced by a number of variables, the exact effect of this bill cannot be determined. Any increase caused by the bill will be addressed through the total compensation analysis included in the annual budget process.

Drug purchases by state agencies. To the extent the bill reduces prescription drug costs, the Departments of Corrections, Health Care Policy and Financing, and Human Services may see a reduction in prescription drug-related expenditures. Any such impact will be addressed through the annual budget process.

Judicial Department. Failure to comply with the provisions of the bill makes an entity subject to penalties imposed by the commissioner, which may be appealed to district court and the court of appeals. The fiscal note assumes that most businesses will comply with the law and that the number of appeals will be minimal.

Rule consultation with certain state agencies. The bill encourages the DOI to consult with the Pharmacy Board, the Secretary of State, the Department of Health Care Policy and Financing, the Department of Corrections, the Department of Human Services, and the Department of Personnel and Administration when adopting rules for the program. Any related workload impact to these agencies is not expected to require an appropriation.

Centrally appropriated costs. Pursuant to a Joint Budget Committee policy, certain costs associated with this bill are addressed through the annual budget process and centrally appropriated in the Long Bill or supplemental appropriations bills, rather than in this bill. These costs, which include employee insurance and supplemental employee retirement payments, are estimated to be \$14,427 in FY 2019-20 and \$11,131 in FY 2020-21.

Local Government

The bill's cost sharing and reporting requirements may contribute to higher premiums paid by local governments that offer health insurance to their employees. In addition, the bill may minimally increase revenue and expenditures for the Denver County Court, which is managed and funded by the City and County of Denver, to hear civil appeals under the bill.

Effective Date

The bill takes effect on July 1, 2019, except that the conforming amendments in Sections 7 and 8 only take effect if House Bill 19-1172, concerning Title 12 Recodification, becomes law, in which case those sections take effect October 1, 2019.

State Appropriations

For FY 2019-20, the bill requires an appropriation of \$121,763 from the Division of Insurance Cash Fund to the Division of Insurance in the Department of Regulatory Agencies and an allocation of 0.9 FTE. Of this amount, \$48,015 is reappropriated to the Office of Information Technology.

State and Local Government Contacts

Corrections
Higher Education
Judicial
Regulatory Agencies

Counties
Human Services
Law
State

Health Care Policy and Financing
Information Technology
Personnel