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**FINAL  
FISCAL NOTE**

<b>Drafting Number:</b> LLS 19-0095	<b>Date:</b> May 29, 2019
<b>Prime Sponsors:</b> Rep. Jackson; Jaquez Lewis	<b>Bill Status:</b> Postponed Indefinitely
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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 would have required health insurers, pharmacy benefit management firms, and certain nonprofit organizations to report information related to prescription drug costs to the Department of Regulatory Agencies. The bill would have increased state revenue and expenditures beginning in FY 2019-20, may have triggered a diversion from the General Fund in initial implementation years, and may have impacted local governments.

**Appropriation Summary:** For FY 2019-20, the bill would have required an appropriation of \$166,539 to the Department of Regulatory Agencies.

**Fiscal Note Status:** The fiscal note reflects the introduced bill, as amended by the House Health and Insurance and Finance Committees. This bill was not enacted into law; therefore, the impacts identified in this analysis do not take effect.

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

		FY 2019-20	FY 2020-21
<b>Revenue</b>	General Fund	up to \$20,000	up to \$20,000
	Cash Funds	\$187,151	\$101,241
	<b>Total</b>	<b>up to \$207,151</b>	<b>up to \$121,241</b>
<b>Expenditures</b>	Cash Funds	\$166,539	\$83,924
	Centrally Appropriated	\$20,612	\$17,317
	<b>Total</b>	<b>\$187,151</b>	<b>\$101,241</b>
<b>Total FTE</b>		<b>1.3 FTE</b>	<b>1.1 FTE</b>
<b>Diversions</b>		-	-
<b>TABOR Refund</b>		-	-

## **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.

**Industry disclosure requirements.** 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.

- *Health insurers and pharmacy benefit management firms.* Health insurers or their pharmacy benefit management firms (PBMs) must annually report to the DOI, concurrent with the health insurer's rate filing, on the aggregate amount of all rebates and discounts that reduced the cost to acquire the prescription drug, other than rebates used to reduce cost sharing for prescription drugs; the aggregate amount of administrative fees the PBM received from manufacturers and health insurers; the aggregate amount attributable to dispensing, service, and administrative fees; and an explanation of all other services provided by the health insurer or PBM, excluding proprietary and client-specific information. Failure to comply is an unfair or deceptive act.
- *Nonprofit organizations.* Certain nonprofit organizations are required to report to the commissioner by April 1 of each year on any payment, donation, subsidy, or thing of value exceeding \$1,000 in 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. A fine up to \$1,000 may be levied on an organization that fails to comply.

**Commissioner analysis and reporting requirements.** The commissioner is required to post this information on the 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 by December 1, 2020, and each December thereafter. At least 30 days before the report is published, the commissioner must provide the report to health insurers, prescription drug manufacturers, and pharmacy benefit management firms and provide them an opportunity to object the release of specified information. The commissioner must follow a determination process that is outlined in the bill. In compiling the report, the commissioner may consult with the Departments of Corrections, Health Care Policy and Financing, and Human Services, and any other state agency that purchases or reimburses the cost of prescription drugs.

**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.** Effective January 1, 2021, insurers must reduce the amount of cost sharing that they would otherwise charge a covered person for a prescription drug by an amount equal to 100 percent of the estimated rebate per prescription that the insurer received for the prescription drug, calculated based on the rebates the carrier received for that prescription drug in the previous quarter; except that the reduction amount shall not exceed an amount equal to the covered person's cost-sharing amount that would otherwise be charged for the dispensed prescription drug. Neither the covered person nor the insurer is responsible for any difference between the estimated rebate amount and the actual rebate the carrier receives. The commissioner must adopt rules as necessary to implement this section, which must ensure that rebates are applied in a manner to provide a price reduction for covered persons who have not reached their annual cost-sharing limit and to limit the effect on premiums.

**Disciplinary actions.** 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 \$187,151 in FY 2019-20 and \$101,241 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	\$353	at least 530	<b>\$187,151</b>
FY 2020-21	Filing fee	\$192	at least 530	<b>\$101,241</b>

\* 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 \$187,151 and 1.3 FTE in FY 2019-20 and \$101,241 and 1.1 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**

	<b>FY 2019-20</b>	<b>FY 2020-21</b>
<b>Department of Regulatory Agencies</b>		
Personal Services	\$96,005	\$79,855
Operating Expenses and Capital Outlay Costs	\$5,938	\$1,045
Computer Programming and Maintenance	\$48,015	\$3,024
Legal Services	\$16,581	-
Centrally Appropriated Costs*	\$20,612	\$17,317
<b>Total Cost</b>	<b>\$187,151</b>	<b>\$101,241</b>
<b>Total FTE</b>	<b>1.3 FTE</b>	<b>1.1 FTE</b>

\* 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. On an ongoing basis, the division will conduct enforcement actions as needed to ensure implementation and compliance with this legislation, including enforcement of rebates, as well as data collection, redaction, and reporting. Staff for this work includes a Statistical Analyst II (0.4 FTE), a Rate/Financial Analyst IV (0.5 FTE), and an Actuary II (0.4 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.
- *Legal services.* The DOI requires 160 hours of legal services at the hourly rate of \$103.63 to perform legal review of confidentiality requirements under the bill.

**State employee insurance.** The bill's cost sharing and reporting requirements may 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 impact the state's share of employee health insurance premiums until FY 2020-21. Because insurance rates are influenced by a number of variables, this impact 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 \$20,612 in FY 2019-20 and \$17,317 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 was postponed indefinitely by the House Appropriations Committee on May 4, 2019.

**State Appropriations**

For FY 2019-20, the bill requires an appropriation of \$166,539 from the Division of Insurance Cash Fund to the Division of Insurance in the Department of Regulatory Agencies and an allocation of 1.3 FTE. Of this amount, \$48,015 is reappropriated to the Office of Information Technology and \$16,581 is reappropriated to the Department of Law.

**State and Local Government Contacts**

Corrections  
Higher Education  
Judicial  
Regulatory Agencies

Counties  
Human Services  
Law  
State

Health Care Policy and Financing  
Information Technology  
Personnel