SUBJECT: Consolidating TDH drug reimbursement programs

COMMITTEE: Public Health — committee substitute recommended

VOTE: 6 ayes — Berlanga, Hirschi, Davila, Delisi, Glaze, Maxey

0 nays

3 absent — Coleman, Janek, Rodriguez

WITNESSES: None

BACKGROUND: Three major public health programs administered by the Texas Department of Health (TDH) reimburse clients for medication. The Vendor Drug Program (VDP), the largest and most comprehensive of the three, is part of Medicaid and reimburses pharmacies for client drug purchases. The Chronically Ill and Disabled Children's Services Program (CIDC) provides medical care and services to children with special needs. An estimated $7.1 million, or 15 percent, of CIDC's fiscal 1996 expenditures were for medications. The Kidney Health Care program (KHC) provides medical benefits for persons suffering from severe kidney disease. In 1996, KHC paid about $6.3 million of its $17.1 million annual expenditures for medications.

DIGEST: CSHB 1377 would require TDH to institute measures for cutting medications expenses. TDH would have to require clients to exhaust their Medicaid drug reimbursement benefits before using CIDC or KHC funds to pay for their medications. TDH would also have to develop a rebate program with drug manufacturers for drugs purchased under CIDC and KHC, and would have to seek rebates in amounts established under the Medicaid rebate program or work with manufacturers to set amounts for drugs not covered by Medicaid.

The department would not be required to seek rebates for drugs purchased at a lower price than the Medicaid rebate amount. TDH could require all drug manufacturers to participate in the rebate program as a condition of reimbursement. Money recovered through drug rebates could be appropriated only for the KHC or CIDC programs. TDH also could set the

reimbursement rate for hemophilia factor at the U.S. Public Health Service price, plus a reasonable dispensing fee that it determined.

TDH also would have to consolidate KHC and CIDC drug benefits components within the Medicaid Vendor Drug Program (VDP). The department would use the VDP's claims processing and program monitoring procedures, pharmacy network, and reimbursement rates for the consolidated program. CSHB 1377 would authorize TDH to use the VDP's prior authorization and dispute resolution procedures and approval criteria to the extent that they were consistent with the funding and policy considerations of KHC and CIDC.

TDH would have to implement the manufacturer rebate program by September 1, 1997, and to consolidate the drug benefits components of all three programs by March 1, 1999.

CSHB 1377 would take immediate effect if finally approved by a two-thirds record vote of the membership of each house.

SUPPORTERS SAY:

CSHB 1377 would put into effect recommendations from the 1996 Texas Performance Review report *Disturbing the Peace* that should save the state approximately $1.3 million during the next biennium and about $1.5 million per year in following years. The report pointed out that the Medicaid VDP is considerably more streamlined and efficient than CIDC or KHC, and that Texas could accrue significant cost savings by consolidating drug purchases for all three programs under VDP. TDH reached a similar conclusion in its own study of the issue.

Consolidation of these programs would allow TDH to eliminate redundant functions and reassign about nine full-time employees without affecting service to clients. In fact, service would probably improve because CIDC and KHC clients would have a wider choice of pharmacies.

CSHB 1377 would also improve accountability because while TDH field personnel monitor pharmacies that participate in the VDP program, they do not monitor CIDC and KHC pharmacists.

CSHB 1377 would also generate cost savings by requiring TDH to establish a drug rebate program for CIDC and KHC. Currently, drug manufacturers offer rebates to large volume purchasers such as Medicaid. While CIDC and KHC lack the buying power of Medicaid, the nearly $13 million they spend on drugs and related supplies should be sufficient to justify these discounts.

OPPONENTS SAY:

No apparent opposition.

NOTES:

The committee substitute added provisions requiring that rebates be appropriated to CIDC and KHC, regarding reimbursement of hemophilia factor medication, and requiring that the alternative dispute resolution process apply to CIDC and KHC as part of the consolidation of the programs.

The companion bill, SB 1405 by Moncrief, has been referred to the Senate Health and Human Services Committee.