

Department of Planning and Budget

2022 Fiscal Impact Statement

1. Bill Number: HB584

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|------------------------|--|-------------------------------------|------------------------------------|
| House of Origin | <input checked="" type="checkbox"/> Introduced | <input type="checkbox"/> Substitute | <input type="checkbox"/> Engrossed |
| Second House | <input type="checkbox"/> In Committee | <input type="checkbox"/> Substitute | <input type="checkbox"/> Enrolled |

2. Patron: Hudson

3. Committee: Appropriations

4. Title: Employee health insurance; pharmacy benefits, reverse auction process.

5. Summary: Directs the Department of Human Resource Management to utilize a reverse auction process to award pharmacy benefit manager contracts for pharmacy benefits offered under the state employee health insurance plan.

6. Budget Amendment Necessary: See Item 8.

7. Fiscal Impact Estimates: See Item 8.

8. Fiscal Implications: This bill directs the Department of Human Resource Management (DHRM) to develop and implement a reverse auction process to select a pharmacy benefit manager for the state employee health insurance plan. The specifics of the process will need to be determined by DHRM, however, based on examples from other states DHRM would need to clearly define many of the terms of the contract, including a formulary list of pharmaceuticals to be covered by the plan, and provide data about plan member utilization in advance of the auction beginning, so that prospective bidders can make an informed bid. Bidders would subsequently provide their best price to administer the program, as outlined in the contract. Reverse auctions typically allow multiple rounds of bidding.

This process is a change from DHRM's current procurement method of issuing a request for proposals (RFP) and proceeding through competitive negotiations. DHRM may require additional resources for consultants to ensure that the initial proposal and contract documents are as complete and comprehensive as possible. For example, DHRM points out that under current practice the state does not set its own formulary list. The state uses the formulary list of the selected pharmacy benefit manager. Under a reverse auction process, DHRM would need to determine that list in advance. The estimated costs for such consultants is currently unknown.

One of the main goals of a reverse auction process is to obtain the lowest possible price for a good or service in order to drive down procurement costs and achieve savings. It is unknown if a reverse auction would result in savings compared to the existing contract. Such savings would be dependent on the nature of the contract proposed by DHRM and the bids received, and are indeterminate at this time. Additionally, it is unknown whether using a reverse

auction method compared the existing competitive negotiation process during the next procurement would be more advantageous on a cost basis to the Commonwealth.

The current contract for pharmacy benefit management for the state employee health insurance plan expires June 30, 2024, but has an option for up to five one-year renewals. Should DHRM not exercise any of the renewal options, then the consultant and procurement impacts previously discussed would likely be incurred partially in FY2023 and partially in FY2024, with any potential fiscal impacts to the plan itself occurring beginning in FY2025. For comparison, if DHRM exercises all of the renewal options, the consultant and procurement costs would not be incurred until FY2028 and FY2029, with health plan fiscal impacts occurring in FY2030. Due to the outcome of future renewal options being unknown, a timeline for any fiscal impacts cannot be provided at this time.

It is unclear from this legislation what discretion DHRM would have in choosing a pharmacy benefit manager outside of the cost bids provided by the reverse auction. Under the existing RFP and competitive negotiation process, DHRM notes that they utilize a thorough review and evaluation of all aspects of pharmacy benefit management including cost, customer service metrics, reporting capabilities, and pharmacy access.

The Department of General Services (DGS) notes that the statewide procurement system (eVA) provides for reverse auction functionality and therefore additional software/system costs are not assumed in this fiscal impact statement.

9. Specific Agency or Political Subdivisions Affected: Department of Human Resource Management

10. Technical Amendment Necessary: No.

11. Other Comments: The Virginia Public Procurement Act (VPPA) does not allow the use of reverse auctioning for professional services. DHRM and DGS indicate that the services covered by this bill qualify as professional services as defined by the VPPA, which may conflict with the provisions of this legislation.