

FISCAL NOTE
LEGISLATIVE FISCAL ANALYST ESTIMATE

ESTIMATE OF FISCAL IMPACT – STATE AGENCIES (See narrative for political subdivision estimates)				
	FY 2016-17		FY 2017-18	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS				
CASH FUNDS	\$286,100	\$6,000	\$258,500	\$400
FEDERAL FUNDS				
OTHER FUNDS				
TOTAL FUNDS	\$286,100	\$6,000	\$258,500	\$400

Any Fiscal Notes received from state agencies and political subdivisions are attached following the Legislative Fiscal Analyst Estimate.

LB 1060 is the Pharmacy Benefit Fairness and Transparency Act. The bill requires pharmacy benefit managers to apply to the Department of Insurance (DOI) for a certificate of authority to operate in the state. The application fee is \$200. The DOI is to have access to records maintained by a pharmacy benefit manager for the purposes of examination, audit and inspection. Pharmacy benefit managers are required to notify the DOI in writing within five days of any change in ownership.

The Director of the DOI has the authority to revoke or suspend certificates of authority for as specified in the bill and in lieu of suspension or revocation may impose an administrative penalty of \$5,000 to \$15,000. Pharmacy benefit managers are required to file an annual report with the department. Failure to file the report results in a penalty of \$1,000 per day. Fines accrue to the county where the fine is imposed for use by the public schools. Fine revenue is projected to be minimal pursuant to the bill.

Revenue: The number of pharmacy benefit managers in the state is unknown. The DOI estimates 30 pharmacy benefit managers will apply for a certificate of authority in FY2016-17, based upon the number registered in Kansas. Estimated revenue will be \$6,000 of cash funds in FY17. It is assumed about two new pharmacy benefit managers will apply each year thereafter.

Expenditures: The bill requires the DOI to license and regulate pharmacy benefit managers. The amount of work required to regulate these entities is unknown and depends upon the number in the state and complaints relative to their operations. DOI projects the need for 4 FTE (1.5 Financial Examiners; Insurance Claims Investigator; Market Conduct Investigator; .5 Attorney) for regulatory purposes.

This fiscal note assumes existing attorneys in the DOI can handle any legal responsibilities relative to the bill. It is also assumed that one, rather than 1.5 financial examiners, will be necessary due to the small number of projected pharmacy managers. Using these assumptions, the estimated increase in cash fund expenditures for 3.0 FTE to regulate pharmacy benefit managers is \$286,100 in FY17 and \$258,500 in FY18.

ADMINISTRATIVE SERVICES-STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSES			
LB: 1060	AM:	AGENCY/POLT. SUB: Department of Insurance	
REVIEWED BY: Robin Kilgore		DATE: 2-4-16	PHONE: 471-4180
COMMENTS: No basis to disagree with agency estimate of fiscal impact.			

Please complete ALL (5) blanks in the first three lines.

2016

LB⁽¹⁾ 1060

FISCAL NOTE

State Agency OR Political Subdivision Name: ⁽²⁾

Nebraska Department of Insurance

Prepared by: ⁽³⁾ Robert M. Bell

Date Prepared: ⁽⁴⁾ _____

Phone: ⁽⁵⁾ (402) 471-4650

ESTIMATE PROVIDED BY STATE AGENCY OR POLITICAL SUBDIVISION

	<u>FY 2016-17</u>		<u>FY 2017-18</u>	
	<u>EXPENDITURES</u>	<u>REVENUE</u>	<u>EXPENDITURES</u>	<u>REVENUE</u>
GENERAL FUNDS	_____	_____	_____	_____
CASH FUNDS	<u>394,656</u>	<u>6,000</u>	<u>359,372</u>	<u>400</u>
FEDERAL FUNDS	_____	_____	_____	_____
OTHER FUNDS	_____	_____	_____	_____
TOTAL FUNDS	<u>394,656</u>	<u>6,000</u>	<u>359,372</u>	<u>400</u>

Explanation of Estimate:

Legislative Bill 1060 would adopt the Pharmacy Benefit Fairness and Transparency Act. It would place a number of duties on the Department of Insurance to regulate pharmacy benefit managers, which are entities not currently regulated by the Department, increasing the workload in the area of financial regulation. Additionally, LB 1060 places a number of market duties and limitations on pharmacy benefit managers, which will increase the workload of the Department's consumer affairs and market conduct divisions.

The Department estimates that 1.5 financial examiners, 1 insurance claims investigator, 1 market conduct examiner and .5 attorney would be needed to implement LB 1060. Included in the cost is \$40,000 in construction costs for the new employees.

The legislation requires a pharmacy benefit manager to pay a one-time fee to the Department of \$200 for a certificate of authority. An unknown number of pharmacy benefit managers exist in Nebraska. The Kansas Insurance Department has indicated to the Department that 38 pharmacy benefit managers are registered in Kansas. Presuming 30 pharmacy benefit managers apply after the operative date of LB 1060, the Department will collect \$6,000. The Department estimates an additional two pharmacy benefit managers applying annually thereafter.

LB 1060 provides that a pharmacy benefit manager shall forfeit one thousand dollars a day for failure to file an annual report with the Department. All such forfeitures are to be collected by the Department and remitted to the State Treasurer in accordance of the Constitution of Nebraska. The Department may grant an extension for good cause without forfeiture. It is presumed that any such forfeiture will be rare.

Assuming the appropriation will be made from the Department of Insurance Cash Fund, such an appropriation without additional revenue may impact the long-term sustainability of the fund.

BREAKDOWN BY MAJOR OBJECTS OF EXPENDITURE

Personal Services:

<u>POSITION TITLE</u>	<u>NUMBER OF POSITIONS</u>		<u>2016-17</u>	<u>2017-18</u>
	<u>16-17</u>	<u>17-18</u>	<u>EXPENDITURES</u>	<u>EXPENDITURES</u>
Financial Examiner I	<u>1.5</u>	<u>1.5</u>	<u>85,167</u>	<u>87,082</u>
Insurance Claims Investigator I	<u>1.0</u>	<u>1.0</u>	<u>46,962</u>	<u>48,019</u>
Market Conduct Investigator II	<u>1.0</u>	<u>1.0</u>	<u>72,000</u>	<u>73,620</u>
Attorney II	<u>.5</u>	<u>.5</u>	<u>38,000</u>	<u>38,885</u>

Benefits		<u>84,745</u>	<u>86,662</u>
Operating		<u>16,632</u>	<u>17,104</u>
Travel		<u>8,000</u>	<u>8,000</u>
Capital outlay		<u>43,150</u>	
Aid			
Capital improvements			
TOTAL		<u>394,656</u>	<u>359,372</u>