OFFICE OF THE GOVERNOR

SEP 28 2024

To the Members of the California State Senate:

I am returning Senate Bill 966 without my signature.

This bill would require the California Department of Insurance (CDI) to establish a licensing and oversight structure for Pharmacy Benefit Managers (PBMs) and require PBMs and health plans to report additional data on prescription drugs.

The costs of many prescription drugs — brand name and generic — are too high, and these prices continue to trend upwards. Together with the Legislature, we have taken action to address this problem. We created CalRx to bring in-demand pharmaceutical products to the market with low, transparent pricing, starting with biosimilar insulin and naloxone. We also worked together in 2022 to establish the Office of Health Care Affordability (OHCA) to collect, analyze, and publicly report data on total health care expenditures with the goal to achieve California health care that is accessible, affordable, equitable, high-quality, and universal.

Without a doubt, the public and the Legislature need a clearer understanding of how much PBM practices are driving up prescription drug costs. I commend the author for working to further tackle this issue through regulating PBM participation in the pharmacy delivery system. Currently, PBMs manage all aspects of prescription drug services for California's commercial health care market. I believe that PBMs must be held accountable to ensure that prescription drugs remain accessible throughout pharmacies across California and available at the lowest price possible. However, I am not convinced that SB 966's expansive licensing scheme will achieve such results.

My Administration is committed to increasing access and lowering the costs of prescription drugs. As such, I am directing the California Health and Human Services Agency to propose a legislative approach to gather much needed data on PBMs next year, which can be considered in conjunction with data from our entire health care delivery system. There is some existing transparency regarding prescription drug prices provided through the reporting required by SB 17 (Hernandez, Chapter 603, Statutes of 2017) and the establishment of the Healthcare Payments Database. However, we need more granular information to fully understand the cost drivers in the prescription drug market and the role that PMBs play in pricing. Specifically, California should collect comprehensive information from the pharmacy delivery system about the total cost of care for providing individual prescription drug products, including but not limited to wholesale acquisition costs, fees, payments, discounts, and rebates paid to and received by PBMs.

These next steps, together with the CalRx program and the Office of Health Care Affordability's work, will offer a multi-pronged approach to improving affordability of prescription drugs in California.

For these reasons, I cannot sign this bill.

Sincerely,

Gavin Newsom