SB05-102

Colorado Legislative Council Staff

STATE FISCAL IMPACT

Drafting Number:	LLS 05-0178	**Date:**	January 22, 2005
Prime Sponsor(s):	Sen. Hagedorn Rep. Madden	**Bill Status:**	Senate Health & Human Services
		Fiscal Analyst:	Janis Baron (303-866-3523)

TITLE: CONCERNING MULTISTATE PRESCRIPTION DRUG PURCHASING, AND, IN CONNECTION THEREWITH, ESTABLISHING THE COLORADO CARES PRESCRIPTION DRUG PROGRAM.

Fiscal Impact Summary	FY 2005/2006	FY 2006/07	FY 2007/2008
State Revenues General Fund Federal Funds			
State Expenditures General Fund Federal Funds	$153,688 153,688	($ 123,526) (54,485)	($ 248,702) (223,289)
FTE Position Change	1.0 FTE	1.0 FTE	1.0 FTE
Other State Impact: None			
Effective Date: Upon Signature of the Governor			
Appropriation Summary for FY 2005/2006: Department of Health Care Policy and Financing	$ 307,376 Total and 1.0 FTE 153,688 General Fund 153,688 Federal Funds		
Local Government Impact: None			

Summary of Legislation

The bill includes the following provisions regarding multistate prescription drug purchasing:

- requires the Department of Health Care Policy and Financing to apply for the necessary federal authorization to enter into a multistate drug purchasing pool for the benefit of the state's Medicaid recipients;
- requires the department to contract, through a competitive bidding process, with one or more entities for purposes of the purchasing pool;
- requires the executive director to promulgate rules establishing a preferred drug list (PDL) that meets the federal requirements for allowing the state to enter into a multistate drug purchasing pool unless a bill establishing a PDL

is enacted in the first regular session of the 65th General Assembly and becomes law; and
- specifies the time line for implementing the purchasing pool.

The bill also establishes the Colorado Cares Rx program in the department to allow an eligible person to purchase prescription drugs at the discounted rate the state's Medicaid program is able to obtain through the purchasing pool. The department is required to apply for the necessary federal authorization to implement the program. Eligibility criteria for the program is defined as a resident of the state of Colorado who is at or below 350 percent of the federal poverty level (FPL), and who does not have all of his or her prescription drugs paid for through health insurance. The department is required to contract with one or more entities to implement and administer the program, and the contractor is authorized to charge an annual fee to eligible persons not to exceed $25 to administer the program.

Lastly, the bill authorizes a state agency to enter into a multistate purchasing agreement for the purchase of prescription drugs if the agreement would allow the state agency to realize savings in a program that the agency administers.

State Expenditures

Department of Health Care Policy and Financing. Table 1 identifies required funding through FY 2007-08 under SB 05-102. Staff has noted funding requirements for FY 2007-08 because that is the first fiscal year wherein 12 months of costs/savings are achieved. **Total costs and savings are affected in FY 2006-07 and FY 2007-08 due to implementation of the Medicare Modernization Act (MMA), which offers a prescription drug benefit in Medicare. With MMA, all prescription costs for Medicaid dual eligibles will be transferred to Medicare. In Colorado, 15 percent of this fee-for-service population accounts for 50 percent of Medicaid drug expenditures.** The narrative which follows identifies the assumptions used in identifying the bill's costs.

Table 1	FY 2005-06	FY 2006-07	FY 2007-08
Total Program Costs	$ 307,376	($ 178,011)	($ 471,991)
General Fund	153,688	(123,526)	(248,702)
Federal Funds	153,688	(54,485)	(223,289)
FTE	1.0	1.0	1.0

Personal Services/Operating Expenses — costs are identified at $57,373 in FY 2005-06 and $54,088 in FY 2006-07. The department would hire 1.0 FTE General Professional IV starting July 1, 2005, to write the request for proposal for the PDL contractor. Over the course of the purchasing pool program, this position will perform data analysis, oversee and negotiate Medicaid Management Information System (MMIS) changes, submit and monitor a state plan amendment (federal authorization), and implement, administer and monitor the contract.

PDL Contractor — costs are identified at $250,000 annually to complete the research, purchase lists, meet with stakeholders, and develop/update the list. It is estimated that a contract would be in place February 1, 2006; a PDL would be implemented October 1, 2006.

MMIS — costs are identified at $138,080 in FY 2006-07 and $50,826 in FY 2007-08 for systems changes and maintenance costs to implement and bi-annually modify the PDL.

Prior Authorization Requests — costs are identified at $747,167 in FY 2006-07 (9 months) and $996,223 in FY 2007-08 (12 months). Currently, the department has a PAR program for pharmaceuticals which are either very expensive or have a high potential for abuse or misuse. While it is not known what drugs will not be on the PDL or the number of clients and providers who will request drugs not on the PDL, Table 2 below identifies the assumptions used in identifying PAR costs.

Table 2 — Prior Authorization Requests

FY 2003-04 Pharmacy Claims	4,379,000
Less claims due to MMA implementation (4,379,000 * 50%)	2,189,500
Assume 3.5% of Pharmacy Claims will go through PAR process @ $13.00/PAR (2,189,500 * 3.5% = 76,633 * $13)	$996,223
FY 2007-08 PAR Costs (12 months)	**$996,223**
FY 2006-07 PAR Costs (9 months)	**$747,167**

PAR 24-hour Hotline — costs are identified at $225,000 in FY 2006-07 (9 months) and $300,000 in FY 2007-08 for a 24-hour hotline to receive requests for PARs from health care providers and to respond no more than 24 hours later. Although the PDL contractor will operate the 24-hour hotline, the department's current contractor for PARs, Affiliated Computer Services, estimates a per year cost of $300,000 to operate a hotline.

Prescription Drug Savings — conservative savings are estimated at $1,592,346 in FY 2006-07 (9 months) and $2,123,128 in FY 2007-08. These rough estimates are based on Michigan's program which uses a state-based panel of doctors and pharmacists to determine cost effective yet clinically safe and effective drugs for its clients. Table 3 on page 4 identifies the assumptions used in identifying prescription drug savings.

Table 3 — Prescription Drug Savings	
FY 2003-04 Prescription Drug Expenditures	$265,797,673
Less Rebates	(53,484,910)
Net Fee for Service Drug Expenditures	$212,312,763
Assume 2% Savings on Fee for Service ($212,312,763 * 2%)	$4,246,255
MMA effective 1/1/2006 — prescription drug costs for Medicaid dual eligibles are transferred to Medicare (dual eligibles account for half of the state's Medicaid prescription costs)	—
FY 2007-08 Prescription Drug Savings of 12 months ($4,246,255 / 2)	**$2,123,128**
FY 2006-07 Prescription Drug Savings of 9 months ($2,123,128 * 75%)	**$1,592,346**

Colorado Cares Rx — There will be no state cost associated with this program. The General Professional IV position required for the multistate drug purchasing pool will be responsible for obtaining federal approval for this program. The contractor for this program will be required to obtain the rate and PDL from the department and to administer the program within the fees collected from participating clients. Table 4 below identifies the assumptions used in estimating the client caseload in the program. It is important to note that the 2005 federal poverty guidelines will not be available until March.

Table 4 — Expected Clients in Colorado Cares Rx	
Poverty Threshold for Family of Four (based on 2004 federal poverty guidelines)	$18,850
Bill Defines Eligibility at or Below 350% FPL	* 350%
Total Income Level Allowed	$65,975
2005 Projected Colorado Population Based on 2000 U.S. Census Data	4,468,000
Percentage of Households in Colorado with Incomes at or Below 350% FPL (based on 2004 federal poverty guidelines)	73.9%
Estimate of Qualifying Colorado Population	3.301,852
Percentage of Qualifying Colorado Population Interested in Program	40%
Estimate of Qualifying Colorado Population Interested in Program	1,320,741
Percentage of Interested Population Willing to Pay Annual Fee	25%
Estimated Clients in Colorado Cares Rx	330,185
Maximum Fee/Client Charged by Contractor	$25.00
Total Amount of Fees Collected for Administration of Colorado Cares Rx	$8,254,625

Section 24-60-3101 of SB 05-102. This section of the bill authorizes state agencies to enter into a multistate purchasing agreement for the purchase of prescription drugs if the multistate purchasing agreement would allow the agency to realize savings in a program it administers. The Department of Health Care Policy and Financing would research with internally available resources, after learning what costs result from the PDL, as to whether added savings could be achieved by joining a multistate prescription drug purchasing pool. The Departments of Corrections, Human Services, and Public Health and Environment currently buy their prescriptions through a multi-state purchasing agreement contracted through the Department of Personnel and Administration.

State Appropriations

The Department of Health Care Policy and Financing should receive an appropriation for $307,376 and 1.0 FTE. Of the total amount, $153,688 is General Fund and $153,688 is federal funds. Table 5 identifies the cost components and savings under SB 05-102.

Table 5 — Costs Under SB 05-102

Cost Components	FY 2005-06	FY 2006-07	FY 2007-08
Personal Services & Operating Expenses (1.0 FTE)	$57,376	$54,088	$54,088
Contractor Costs to Develop/Maintain PDL	250,000	250,000	250,000
Medicaid Management Information System	0	138,080	50,826
24-Hour Hotline Administered by Contractor	0	225,000	300,000
Prior Authorization Reviews	0	747,167	996,223
Subtotal — Costs	**$307,376**	**$1,414,335**	**$1,651,137**
Prescription Drug Savings	**0**	**($1,592,346)**	**($ 2,123,128)**
NET TOTAL	**$ 307,376**	**($ 178,011)**	**($ 471,991)**
General Fund	**153,688**	**(123,525)**	**(248,702)**
Federal Funds	**153,688**	**(54,486)**	**(223,289)**
FTE	**1.0**	**1.0**	**1.0**

Departments Contacted

Corrections
Public Health and Environment
Health Care Policy and Financing
Human Services