

COLORADO DEPARTMENT OF HEALTH CARE POLICY AND FINANCING - FY 05-06 BUDGET REQUEST

Schedule 6											
Change Request for FY 05-06											
Department:	Health Care Policy and Financing			Dept. Approval by:	Lisa Esgar			Date:	November 1, 2004		
Priority Number:	BRI - 2			OSPB Approval:				Date:			
Program:	Rates Section			Statutory Citation:	26-4-116, C.R.S. (2004); 26-4-408 (1),(1.5), (3)(a), C.R.S. (2004)						
Request Title:	Drug Utilization Review Fund Split Correction										
		1	2	3	4	5	6	7	8	9	10
		Prior-Year		Supplemental	Total	Base	Decision/	November 1	Budget	Total	Change
		Actual	Appropriation	Request	Revised	Request	Base	Request	Amendment	Revised	from Base
	Fund	FY 03-04	FY 04-05	FY 04-05	FY 04-05	FY 05-06	Reduction	FY 05-06	FY 05-06	FY 05-06	in Out Year
Total of All Line Items	Total	72,000	913,025	0	913,025	913,025	(265,000)	648,025	0	648,025	(265,000)
	FTE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	GF	18,000	228,256	0	228,256	228,256	0	228,256	0	228,256	0
	GFE	0	0	0	0	0	0	0	0	0	0
	CF	0	0	0	0	0	0	0	0	0	0
	CFE	0	0	0	0	0	0	0	0	0	0
	FF	54,000	684,769	0	684,769	684,769	(265,000)	419,769	0	419,769	(265,000)
(1) Executive Director's Office Drug Utilization Review	Total	72,000	913,025	0	913,025	913,025	(265,000)	648,025	0	648,025	(265,000)
	FTE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	GF	18,000	228,256	0	228,256	228,256	0	228,256	0	228,256	0
	GFE	0	0	0	0	0	0	0	0	0	0
	CF	0	0	0	0	0	0	0	0	0	0
	CFE	0	0	0	0	0	0	0	0	0	0
	FF	54,000	684,769	0	684,769	684,769	(265,000)	419,769	0	419,769	(265,000)
Letter Notation:											
Cash Fund name/number, Federal Fund Grant name:	FF: Title XX										
IT Request:	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No (If yes and request includes more than 500 programming hours, attach IT Project Plan)										
Request Affects Other Departments:	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No (If Yes, List Other Departments Here:)										

CHANGE REQUEST for FY 05-06
EFFICIENCY AND EFFECTIVENESS ANALYSIS

SELECT ONE:

- Decision Item
- Base Reduction Item
- Supplemental Request
- Budget Request Amendment

Criterion:
 Criterion:

Priority Number:	BRI - 2
Change Request Title:	Drug Utilization Review Fund Split Correction
Long Bill Line Item(s)	(1) Executive Director's Office: Drug Utilization Review
State and Federal Statutory Authority:	26-4-116, C.R.S. (2004); 26-4-408 (1), (1.5), (3)(a), C.R.S. (2004); 42 CFR 456.700

Summary of Request (Alternative A): This Change Request revises the federal match and describes current use of funding for Medicaid Drug Utilization Review. Federal funds are reduced by \$265,000 in the Request Year and into out years.

Alternative A {Recommended alternative}:

Problem or Opportunity Description: In the 2003 legislative session, SB 03-011 and SB 03-294 were adopted. In both of the fiscal notes, the assumption was made that the drug utilization reviews were to be matched three-to-one with federal funds, 75% federal funds and 25% General Fund. Although the Department anticipated in its fiscal note contracting with the University of Colorado for the drug utilization review programs, it was not the successful bidder. The bid awarded was at a lower cost than the funds appropriated.

When the Department submitted to the Centers for Medicare and Medicaid Services a State Plan Amendment to incorporate the prescription drug programs outlined in the

2003 legislation, the federal Centers for Medicare and Medicaid Services informed Health Care Policy and Financing that prior authorization reviews for this prescription drug program could only be matched with 50% federal participation.

The Drug Utilization Review line item was expanded through SB 03-011 and SB 03-294. The following table outlines the growth of the base budget.

Table 1			
FY 05-06 Base Request Sources	Total Funds	General Fund 25%	Federal Funds 75%
Base Request FY 03-04 Drug Utilization Review (SB 03-258)	\$233,025	\$58,256	\$174,769
SB 03-294 – Drug Rebates, Discounts and Management	\$80,000	\$20,000	\$60,000
SB 03-011 – Prescription Drugs under Medicaid	\$600,000	\$150,000	\$450,000
Drug Utilization Review Line Item Base Request FY 05-06	\$913,025	\$228,256	\$684,769

Therefore, there have been three major actions to affect this line item in the recent past:

- Appropriations from Senate Bill 03-011 and Senate Bill 03-294;
- Lower contract costs due to competitive bidding; and
- Lowered federal match.

General Description of Alternative:

This request is to revise the federal match so that some funding in the Drug Utilization Review line item could be paid to the fiscal agent for pharmacy prior authorizations.

Through competitive bidding, the Department has procured services for programs on drug utilization review, education, and evaluation programs with Health Information Designs, Inc. that are less costly than anticipated. Available funds were identified to expand the prescription prior authorization program for the third phase of the prescription drug management program, scheduled to begin in FY 05-06. SB 03-011

and SB 03-294 initiated this pharmacy utilization program. Because there are savings due to lower contract cost, the Department requests an adjustment to a portion of the appropriation to fund additional reviews at 50% federal financial participation.

The Medicaid Management Information System Contract line item currently includes \$1,091,045 for pharmacy prior authorization reviews. The \$265,000 referenced in row 4 of Table 2 would be in addition to the Medicaid Management Information System amount. Pharmacy prior authorization review volume is higher than initially expected, but, as discussed at the Department's Joint Budget Committee Hearing in December 2003, the Department is optimistic about its success in using the reviews, and the ability to help control pharmacy costs.

Implementation Schedule:

Additional prior authorization reviews would commence in the summer and fall of 2005 after contract negotiation with the contractor.

Calculations for Alternative's Funding:

Summary of Request FY 05-06 Matches Schedule 6 and Recommended Request	Total Funds	General Fund	Federal Funds
Base Request (Column 7)	\$648,025	\$228,256	\$419,769
Fund Split Correction (Column 6)	(\$265,000)	\$0	(\$265,000)
FY 05-06 Base Request (Column 5)	\$913,025	\$228,256	\$684,769

Summary of Request FY 06-07 Matches Schedule 6 and Recommended Request	Total Funds	General Fund	Federal Funds
Estimated FY 06-07 Request	\$648,025	\$228,256	\$419,769
Fund Split Correction (Column 10)	(\$265,000)	\$0	(\$265,000)
Continuation of FY 05-06 Base Request (Column 5)	\$913,025	\$228,256	\$684,769

Table 2				
	FY 05-06 Revised Uses of Appropriation	Total Funds	General Fund	Federal Funds
1	Base Request FY 05-06 including:	\$913,025	\$228,256	\$684,769
2	Drug Utilization Review research on other state programs, drug treatment therapies, cost comparisons of various therapies, determining appropriate pricing and uses of dispense as written codes and educational topics. Lessons learned would provide additional information for developing new programs, better criteria, improving claims submission information, and other emergent drug utilization review programs. The federal financial participation rate is 75%.	\$383,025	\$95,756	\$287,269
3	Remainder	\$530,000	\$132,500	\$397,500
4	Addition prior authorization reviews needed for Phase III of the Pharmacy programs implemented in SB 03-011 and SB 03-294. Program would use the General Fund available in the program at a 50% federal financial participation.	\$265,000	\$132,500	\$132,500
5	Difference	(\$265,000)	\$0	(\$265,000)
6	Total FY 05-06 Request	\$648,025	\$228,256	\$419,769

Impact on Other Areas of Government: None

Assumptions for Calculations: Anticipated Drug Utilization Review FY 05-06 contracts totaled \$383,025. The original appropriation is \$913,025. Therefore, the remaining amount available for prior authorizations is the difference between the two numbers (\$913,025 less \$383,025 equals \$530,000). These funds, however, are appropriated at a 75% federal funding participation rate. The General Fund portion of the \$530,000 is \$132,500 (25% of \$530,000). This remaining General Fund available would be matched with federal funds at a 50% federal participation rate. This totals \$265,000 for prior authorization reviews (\$132,500 + \$132,500= \$265,000). The remaining \$265,000 is all federal funds.

Concerns or Uncertainties of Alternative: There may be a need in the future for additional prior authorizations as caseload and utilization expands.

Alternative B {Status quo; no change in funding; not recommended}:

General Description of Alternative: No change to the appropriation at 75% federal financing participation.

Calculations for Alternative’s Funding: No change in funding with this alternative.

Concerns or Uncertainties of Alternative: Since the federal Centers for Medicare and Medicaid Services will not approve prior authorizations at 75% federal financial participation, the funds not needed for the Drug Utilization Review contract(s) would revert and the funds would not be applied to prior authorization reviews. That would reduce anticipated utilization control in the Medical Services Premiums, which in the end could result in higher pharmaceutical costs.

Supporting Documentation

Analytical Technique: Cost/Benefit Analysis

	Alternative A	Alternative B
Cost	\$132,500 General Fund	\$0
Benefit	An estimated 20,883 prior authorization reviews at the current \$12.69 per review would be available to the Pharmacy program.	None
Benefit	Prescription drugs with high cost, high usage or both are candidates for prior authorization reviews. Prior authorizations may save between 10% and 20% on the costs of prescription medications being reviewed. The Department has identified several potential candidates, one of which costs the Department approximately \$4,000,000 per year. At the lower, more conservative 10% savings, this is an estimated \$400,000.	None

Although, Alternative B could cause \$132,500 in General Fund to revert, Alternative A is the preferred choice. Alternative A allows for additional prior authorization reviews by the Department enhancing the potential savings on prescription drugs.

Quantitative Evaluation of Performance -
Compare all Alternatives:

Alternative A has the potential to return \$1.51 per dollar spent (\$400,000 divided by \$265,000 = \$1.51) and by increasing the number of prior authorization reviews available for the prescription drug program. Alternative A uses already appropriated General Fund and the matching federal funds to generate potential savings in the Medical Services Premiums. Alternative B could cause General Fund to be reverted.

Statutory and Federal Authority:

26-4-116, C.R.S. (2004). Quality measurements. *The state department shall measure quality pursuant to the following criteria: (a) Quality shall be measured and considered based upon individuals and groups with the satisfaction of the service received analyzed and compared to nonrecipient populations for the same or similar services when available. (b) Quality shall focus on health status or maintenance of the individual's highest level of functioning, without strict adherence to statistical norms. (2) The state department shall promulgate rules and regulations to clarify and administer quality measurements.*

26-4-408, C.R.S. (2004). Prescribed drugs - utilization review. (1) *The state department shall develop and implement a drug utilization review process to assure the appropriate utilization of drugs by patients receiving medical assistance in the fee-for-service and primary care physician programs. The review process shall include the monitoring of prescription information and shall address at a minimum underutilization and overutilization of benefit drugs. Periodic reports of findings and recommendations shall be forwarded to the state department. (1.5) It is the general assembly's intent that the implementation of a drug utilization review process for the fee-for-service and primary care physician programs will produce savings within the state's medicaid program. The state department, therefore, is authorized to use savings in the medical services premiums appropriations to fund the development and implementation of a drug utilization review process for these programs, as required*

by subsection (1) of this section. The state department may contract on a contingency basis for the development or implementation of the review process required by subsection (1) of this section. (3)(a) The state department shall implement drug utilization mechanisms, including, but not limited to, prior authorization, to control costs in the medical assistance program associated with prescribed drugs.

Code of Federal Regulations – 42 CFR 456.700. Scope. *Drug Utilization Review Program and Electronic Claims Management System – This subpart prescribes requirements for-*

- a. An outpatient DUR program that includes prospective drug review, retrospective drug use review, and an educational program;*
- b. The establishment. Composition and functions of a State DUR Board; and*
- c. An optional point-of-sale electronic claims management system for processing claims for covered out-patient drugs*

Department Objectives Met if Approved:

1.4 To assure delivery of appropriate, high quality care. To design programs that result in improved health status for clients served and to improve health outcomes. To ensure that the Department's programs are responsive to the service needs of enrolled clients in a cost-effective manner.

1.5 To accurately project, report, and manage budgetary requirements to effect Executive and Legislative intent with program and budget development and operations. To accurately record and monitor expenditures for programs managed by the Department so there may be accurate financial reporting at all times.