

COLORADO DEPARTMENT OF HEALTH CARE POLICY AND FINANCING; FY 08-09 BUDGET REQUEST CYCLE

**Schedule 13
Change Request for FY 08-09 Budget Request Cycle**

Request Title:	Decision Item FY 08-09 Efficiencies in Pharmaceuticals through the Expansion of 340B Pricing	Base Reduction Item FY 08-09	Supplemental FY 07-08	Budget Request Amendment FY 08-09 ✓
Department:	Health Care Policy and Financing	Dept. Approval by:	John Bartholomew <i>JB</i>	Date: February 15, 2008
Priority Number:	BA - 12	OSPb Approval:	<i>John W. [Signature]</i>	Date: 2/19/08

		1	2	3	4	5	6	7	8	9	10
		Prior-Year Actual FY 06-07	Appropriation FY 07-08	Supplemental Request FY 07-08	Total Revised Request FY 07-08	Base Request FY 08-09	Decision/ Base Reduction FY 08-09	November 1 Request FY 08-09	Budget Amendment FY 08-09	Total Revised Request FY 08-09	Change from Base (Column 5) FY 09-10
Total of All Line Items	Total	2,077,853,773	2,165,613,963	0	2,165,613,963	2,167,511,673	0	2,167,511,673	(11,297)	2,167,499,901	(667,754)
	FTE	225.36	245.30	0.00	245.30	259.50	0.00	259.50	0.92	260.42	1.00
	GF	640,019,016	660,177,551	0	660,177,551	659,767,737	0	659,767,737	(5,648)	659,761,851	(433,877)
	GFE	343,100,000	343,900,000	0	343,900,000	343,900,000	0	343,900,000	0	343,900,000	0
	CF	0	193,146	0	193,146	254,737	0	254,737	0	254,737	0
	CFE	49,267,363	76,608,400	0	76,608,400	78,942,455	0	78,942,455	0	78,942,455	0
	FF	1,045,467,394	1,084,734,866	0	1,084,734,866	1,084,646,744	0	1,084,646,744	(5,649)	1,084,640,858	(433,877)
(1) Executive Director's Office	Total	15,260,951	16,715,590	0	16,715,590	18,860,743	0	18,860,743	58,171	18,918,914	63,775
Personal Services	FTE	225.4	245.3	0.0	245.3	259.5	0.00	259.50	0.92	260.42	1.00
	GF	6,054,845	7,261,822	0	7,261,822	7,768,653	0	7,768,653	29,086	7,797,739	31,888
	GFE	0	0	0	0	0	0	0	0	0	0
	CF	0	140,495	0	140,495	212,681	0	212,681	0	212,681	0
	CFE	399,006	592,486	0	592,486	2,121,195	0	2,121,195	0	2,121,195	0
	FF	8,807,100	8,720,787	0	8,720,787	8,758,214	0	8,758,214	29,085	8,787,299	31,887
(1) Executive Director's Office SB 04-257	Total	93,197	178,339	0	178,339	243,206	0	243,206	85	243,291	92
Amortization	FTE	0.0	0.0	0.0	0.0	0.0	0.00	0.00	0.00	0.00	0.00
Equalization	GF	41,256	76,448	0	76,448	108,110	0	108,110	43	108,153	46
Disbursement	GFE	0	0	0	0	0	0	0	0	0	0
	CF	0	0	0	0	0	0	0	0	0	0
	CFE	2,092	5,855	0	5,855	12,070	0	12,070	0	12,070	0
	FF	49,849	96,036	0	96,036	123,026	0	123,026	42	123,068	46

COLORADO DEPARTMENT OF HEALTH CARE POLICY AND FINANCING; FY 08-09 BUDGET REQUEST CYCLE

Schedule 13											
Change Request for FY 08-09 Budget Request Cycle											
	Decision Item FY 08-09	<input type="checkbox"/>	Base Reduction Item FY 08-09	<input type="checkbox"/>	Supplemental FY 07-08	<input type="checkbox"/>	Budget Request Amendment FY 08-09	<input checked="" type="checkbox"/>			
Request Title:	Efficiencies in Pharmaceuticals through the Expansion of 340B Pricing										
Department:	Health Care Policy and Financing				Dept. Approval by:	John Bartholomew			Date:	February 15, 2008	
Priority Number:	BA - 12				OSPB Approval:				Date:		
		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	Reduction	Request	Amendment	Revised	from Base
	Fund	FY 06-07	FY 07-08	FY 07-08	FY 07-08	FY 08-09	FY 08-09	FY 08-09	FY 08-09	FY 08-09	(Column 5) FY 09-10
(1) Executive Director's Office	Total	0	34,950	0	34,950	77,872	0	77,872	390	78,262	320
Supplemental	FTE	0.0	0.0	0.0	0.0	0.0	0.00	0.00	0.00	0.00	0.00
Amortization	GF	0	13,722	0	13,722	34,615	0	34,615	195	34,810	160
Equalization	GFE	0	0	0	0	0	0	0	0	0	0
Disbursement	CF	0	0	0	0	0	0	0	0	0	0
	CFE	0	1,220	0	1,220	3,866	0	3,866	0	3,866	0
	FF	0	20,008	0	20,008	39,391	0	39,391	195	39,586	160
(1) Executive Director's Office	Total	1,196,014	1,039,465	0	1,039,465	1,023,940	0	1,023,940	4,365	1,028,305	950
Operating Expenses	FTE	0.0	0.0	0.0	0.0	0.0	0.00	0.00	0.00	0.00	0.00
	GF	586,457	494,229	0	494,229	486,342	0	486,342	2,182	488,524	475
	GFE	0	0	0	0	0	0	0	0	0	0
	CF	0	14,395	0	14,395	3,800	0	3,800	0	3,800	0
	CFE	8,151	14,546	0	14,546	27,093	0	27,093	0	27,093	0
	FF	601,406	516,295	0	516,295	506,705	0	506,705	2,183	508,888	475
(2) Medical Services Premiums	Total	2,061,396,808	2,147,858,908	0	2,147,858,908	2,147,626,990	0	2,147,626,990	(74,308)	2,147,552,682	(932,891)
	FTE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	GF	633,377,714	652,421,500	0	652,421,500	651,512,742	0	651,512,742	(37,154)	651,475,588	(466,446)
	GFE	343,100,000	343,900,000	0	343,900,000	343,900,000	0	343,900,000	0	343,900,000	0
	CF	0	38,256	0	38,256	38,256	0	38,256	0	38,256	0
	CFE	48,860,206	76,001,368	0	76,001,368	76,794,167	0	76,794,167	0	76,794,167	0
	FF	1,036,058,888	1,075,497,784	0	1,075,497,784	1,075,381,825	0	1,075,381,825	(37,154)	1,075,344,671	(466,445)
Letternote revised text:											
Cash Fund name/number, Federal Fund Grant name:	FF: Title XIX										
IT Request:	<input type="checkbox"/> Yes <input type="checkbox"/> No										
Request Affects Other Departments:	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No If Yes, List Other Departments Here:										

CHANGE REQUEST for FY 08-09 BUDGET REQUEST CYCLE

Department:	Health Care Policy and Financing
Priority Number:	BA -12
Change Request Title:	Efficiencies in Pharmaceuticals through the Expansion of 340B Pricing

SELECT ONE (click on box):

- Decision Item FY 08-09
- Base Reduction Item FY 08-09
- Supplemental Request FY 07-08
- Budget Request Amendment FY 08-09

SELECT ONE (click on box):

Supplemental or Budget Request Amendment Criterion:

- Not a Supplemental or Budget Request Amendment
- An emergency
- A technical error which has a substantial effect on the operation of the program
- New data resulting in substantial changes in funding needs
- Unforeseen contingency such as a significant workload change

Short Summary of Request:

The Department is seeking funding to implement a 340B pricing pilot to increase the number of pharmacy claims paid through this rate structure. This request is for 1.0 annualized FTE and a net reduction in funding of \$11,297 in FY 08-09 and \$867,754 in FY 09-10.

Background and Appropriation History:

In 1992, Congress passed the Veterans Health Care Act, Public Law 102-585, which included a provision giving health care providers that primarily served low-income patients or “safety-net” providers, access to significant discounts on pharmaceuticals. 340B is a federally administered program that allows covered entities to provide low priced outpatient prescription drugs to their patients.

Only entities that receive certain federal grants such as Ryan White funds for HIV and AIDS or that have been designated as eligible, such as Federally Qualified Health Centers (FQHC) and some Disproportionate Share (DSH) Hospitals may obtain 340B pricing. Only individuals who are patients of a qualified entity have access to 340B priced drugs.

The federal government considers a person to be a patient of an entity if the entity retains the person's medical records.

In 72 FR 1540, January 12, 2007 the federal Health Resources and Services Administration noticed rules allowing covered entities to use several contract pharmacies for 340B dispensing or to create pharmaceutical networks. Previously a covered entity was required to operate an "in-house" 340B pharmacy or to contract with a single outside pharmacy that acted as the dispensing agent. Multi-contract pharmacies and pharmacy networks allow patients greater choice of pharmacies thus eliminating one of the major barriers to implementing 340B programs.

One way the 340B covered entities can maximize savings under the program is to negotiate below "ceiling" prices or to grant a permit to a Prime Vendor. Health Resources Services Administration selected a Prime Vendor in 2004. The Prime Vendor is responsible for negotiating sub-340B pricing or below "ceiling" pricing for 340B eligible entities at no cost to the covered entity. The Prime Vendor has secured sub-340B pricing on more than 2,000 pharmaceuticals for the 1,600 participating entities.¹

General Description of Request:

This request is for a reduction in total funds of \$11,297 and 0.9 FTE annualizing to 1.0 in FY 09-10 to fund a pilot program designed to increase the number of pharmacy claims receiving 340B pricing. The Department would provide client and provider incentives to encourage participation in the pilot.

340B Technical Assistance

Implementing an effective 340B program can be difficult and complicated, but there are a number of sources of assistance for states wishing to secure 340B pricing for medications prescribed for Medicaid patients. One source for expert advice and assistance at no cost to the state is Heinz Family Philanthropies (HFP). In 2006 Heinz Family Philanthropies conducted a no cost study examining the feasibility and the steps necessary to successfully initiate a 340B program for the Colorado prison system. Heinz Family Philanthropies also completed studies for an initiative dubbed "HOPE" which stands for

“Helping Overcome Prescription (drug) Expenses.” In addition to the report written for Colorado regarding the use of 340B for its prison system, Heinz Family Philanthropies has funded a number of studies on strategies for reducing pharmaceutical costs and helping low-income residents obtain needed medicines including reports for Idaho, Maine, Massachusetts, Mississippi, Pennsylvania, Rhode Island, and Virginia.

Another source of information and technical assistance at no cost to the state is the National Conference of State Legislatures. The National Conference of State Legislatures has a wealth of information on what other states have done to successfully increase their participation in 340B.

The Department assumes that it would solicit technical assistance from free resources. This would include, but not be limited to Heinz Family Philanthropies and National Conference of State Legislatures. This assistance would include implementation of mail-order pharmacy services and the possibility of using a vendor to coordinate 340B pricing for all eligible providers.

340B Pricing Mail-Order Vendor

Currently the Department only pays a small portion of pharmacy claims using 340B pricing. Many of the providers eligible to participate in 340B pricing do not fill prescriptions in-house. As a result, the clients take their prescriptions to retail pharmacies that are not 340B pharmacies.

The Department would implement a 340B pilot by coordinating with 340B qualified entities and utilizing a mail-order pharmacy vendor that would work with the Department and the 340B qualified entities to Colorado’s unique circumstances. The vendor would be responsible for providing mail-order pharmaceuticals for clients who receive medical services at a Federally Qualified Health Center and who use a maintenance drug and are patients of 340B qualified entities. The Department assumes that the only direct compensation for this contract would be an enhanced dispensing fee provided to all 340B pharmacies and reimbursement for the cost of the drug. The Department assumes that an increased dispensing fee would be required and sufficient to compensate the mail-order

vendor for the additional administrative burden associated with participating as a 340B pharmacy.

Savings Estimate

The Department assumes that savings would be achieved using 340B mail-order pharmacies for maintenance drugs. Currently, there are pharmacy providers that already qualify to receive drugs at 340B pricing.

The Department assumes that savings would be 19% of the prescription drug costs net of rebates for 340B eligible providers for maintenance drugs. This estimate is the published savings provided in the Oregon Blueprint. This is a document published by the Heinz Family Philanthropies fiscal and policy strategies for prescription drugs in Oregon. The Department assumes that the savings rate provided in the Oregon Blueprint includes the offset to savings that would occur with the shift of pharmacy claims to 340B pricing. Claims paid at 340B pricing are not eligible for any drug rebates. In the event that the savings estimate does not include these offsets, the Department would not achieve the anticipated level of savings. The Department would address any changes in funding necessary during the state budget process.

The Department based savings calculations on actual expenditures in FY 06-07. The estimate was inflated by the projected increase in Medical Services Premiums through FY 09-10. The Department assumes that participation will grow from 25% in FY 08-09 to the maximum of 50% in FY 09-10. This is based on the assumption that two years would be needed to fully incorporate qualified 340B providers into the program.

Based on the implementation plan, the Department would only receive two months of savings in FY 08-09 or \$86,213. FY 09-10 would be the first full year of implementation and the Department estimates savings of \$1,082,352. A summary of the savings estimates by fiscal year is included as part of the total impact to Medical Services Premiums in Table 4 and detailed tables are available in Appendices 1.0 through 1.2.

Provider and Incentive Payments

The Department recommends two types of incentive payments necessary to facilitate the participation of providers and clients. These incentives include increasing the dispensing fee for 340B pharmacies and waiving the co-pay requirement for clients who receive maintenance drugs through the mail-order pharmacy. These recommendations increase the costs associated with the administrative aspects of this program. As a result, they act to offset the projected savings for the program. In FY 08-09, the Department estimates that it would cost \$10,130 to increase dispensing fees and \$1,775 to waive client co-pays.

Currently Colorado pays a \$4.00 dispensing fee for non-340B prescriptions and a \$1.89 dispensing fee for 340B drugs. While dispensing fees must be tied to the cost of preparing and dispensing a prescription medication the fact that the 340B program makes dispensing a medication more complex than non-340B drugs would suggest a dispensing fee of at least as much as the one pharmacies receive when dispensing drugs outside the program would be appropriate. Based on information on 340B pricing in other states, it is common to provide an enhanced rate on dispensing fees; fees for states range from approximately \$6 to \$10 per prescription. The Department assumes that dispensing fees would increase for all 340B pharmacies from \$1.89 to \$8.00. Detailed tables of these changes are available in Appendices 2.0 through 2.1.

In order to incentivize clients to use 340B pharmacies, the Department recommends waiving the co-pay requirement for all drugs received through these pharmacies. Currently Colorado requires prior authorization or prior approval of certain drugs such as brand name drugs and the substitution of generic equivalents to contain pharmaceutical costs. Another technique Colorado employs to discourage inappropriate drug expenditures is Medicaid recipient cost-sharing where certain categories of recipients pay \$3 per prescription for brand name drugs and \$1 for generics. Detailed tables of these changes are available in Appendices 2.2 through 2.3.

340B General Professional IV FTE Responsibilities

To perform the required analysis on 340B programs and coordinate the technical assistance from the Heinz Family Foundation, National Conference of State Legislatures, Health Resources Services Administration and other sources, the Department will require an additional 1.0 FTE at the General Professional IV level. This FTE will be responsible for design of the 340B pilot, revising the State Plan Amendment, writing rules, writing the request for proposals and overseeing selection of a mail-order pharmacy vendor. Once the vendor has been selected, the FTE will be responsible for management of the pilot program, internal auditing, coordinating with the 340B qualified entities to contract with the mail-order pharmacy vendor, and educational outreach to assure that the program is performing as designed. Further, once the program is established, the FTE would be responsible for combining the 340B program with the management of patients with high cost/complex conditions to achieve additional savings.

Consequences if Not Funded:

Without additional funding, the Department's Pharmacy Section would not have the resources to implement 340B pricing as described above. The Department would continue to pay higher costs for pharmaceuticals, and would forego all estimated savings from implementing the changes outlined.

Calculations for Request:

Table 1: Summary of Request FY 08-09

	Total Funds	General Fund	Federal Funds
Total Request (Column 8)	(\$11,297)	(\$5,648)	(\$5,649)
(1) Executive Director's Office, Personal Services	\$58,171	\$29,086	\$29,085
(1) Executive Director's Office, SB 04-257 Amortization Equalization Disbursement	\$85	\$43	\$42
(1) Executive Director's Office, Supplemental Amortization Equalization Disbursement	\$390	\$195	\$195
(1) Executive Director's Office, Operating Expenses	\$4,365	\$2,182	\$2,183
(2) Medical Services Premiums	(\$74,308)	(\$37,154)	(\$37,154)

Table 2: Summary of Request FY 09-10

	Total Funds	General Fund	Federal Funds
Total Request (Column 10)	(\$867,754)	(\$433,877)	(\$433,877)
(1) Executive Director's Office, Personal Services	\$63,775	\$31,888	\$31,887
(1) Executive Director's Office, SB 04-257 Amortization Equalization Disbursement	\$92	\$46	\$46
(1) Executive Director's Office, Supplemental Amortization Equalization Disbursement	\$320	\$160	\$160
(1) Executive Director's Office, Operating Expenses	\$950	\$475	\$475
(2) Medical Services Premiums	(\$932,891)	(\$466,446)	(\$466,445)

Table 3: FTE and Operating Expenses

Fiscal Year(s) of Request		<i>GRAND TOTAL</i>			
		FY 08-09	FY 09-10	FY 08-09	FY 09-10
PERSONAL SERVICES	Title:	General Professional IV			
Number of PERSONS / class title		1	1		
Number of months working in FY 08-09 and FY 09-10		12	12		
Number months paid in FY 08-09 and FY 09-10		11	12		
Calculated FTE per classification		0.92	1.00	0.92	1.00
Annual base salary		56,796	56,796		
Salary		\$52,063	\$56,796	\$52,063	\$56,796
PERA	10.15%	\$5,284	\$5,765	\$5,284	\$5,765
Medicare	1.45%	\$824	\$824	\$824	\$824
Prior Year SAED	N/A	\$0	\$390	\$0	\$390
Subtotal Personal Services at Division Level		\$58,171	\$63,775	\$58,171	\$63,775
Subtotal AED at EDO Long Bill Group Level	Varies	\$85	\$92	\$85	\$92
Subtotal SAED at EDO Long Bill Group Level	Varies	\$390	\$320	\$390	\$320
OPERATING EXPENSES					
Supplies @ \$500/\$500	\$500	\$460	\$500	\$460	\$500
Computer @ \$900/\$0	\$900	\$900	\$0	\$900	\$0
Office Suite Software @ \$330/\$0	\$330	\$330	\$0	\$330	\$0
Office Equipment @ \$2,225 /\$0	\$2,225	\$2,225	\$0	\$2,225	\$0
Telephone Base @ \$450/\$450	\$450	\$450	\$450	\$450	\$450
Subtotal Operating Expenses		\$4,365	\$950	\$4,365	\$950
GRAND TOTAL ALL COSTS		\$63,011	\$65,137	\$63,011	\$65,137

Table 4: Summary of the Impact to Medical Services Premiums

Row	Item	Total	Description
FY 08-09			
A	Total Savings Estimate	(\$86,213)	Row C (Appendix 1.2)
B	Cost from Increasing Dispensing Fees	\$10,130	Row C (Appendix 2.1)
C	Cost of Waiving the Client Co-pay	\$1,775	Row C (Appendix 2.3)
D	FY 08-09 Net Impact to Implementation of 340 Pricing on Medical Services Premiums	(\$74,308)	Row B + Row C + Row A
FY 09-10			
E	Total Savings Estimate	(\$1,082,352)	Row F (Appendix 1.2)
F	Cost from Increasing Dispensing Fees	\$127,172	Row F (Appendix 2.1)
G	Cost of Waiving the Client Co-pay	\$22,289	Row F (Appendix 2.3)
H	FY 09-10 Net Impact to Implementation of 340 Pricing on Medical Services Premiums	(\$932,891)	Row F + Row G + Row E

Assumptions for Calculations:

Table 4: Summary of the Impact to Medical Services Premiums

In the Department's FY 08-09 Budget Request, November 1, 2007, page EM-1 the Department reports the prescription drug costs net of rebates as \$131,188,645. The Department adjusted the savings to reflect the estimated growth in Medical Services Premiums costs. Finally, the Department discounted the savings estimate in FY 08-09 to account for the time necessary to implement the program. As a result, the Department assumes that pharmacy savings will only impact two months in FY 08-09. Table 4 provides the summary of these changes by fiscal year. Detailed tables of these changes are available in Appendices 1.0 through 1.2.

In addition, the Department recommends two incentives to ensure the participation of pharmacies and to ensure the use of these pharmacies by clients. These incentives were

not addressed in the fiscal impact of implementation of 340B pricing produced by Policy Works.

The first incentive would be to providers through increasing the dispensing fee. Review of several states that have implemented 340B pricing, enhanced dispensing fees range from approximately \$6.00 to \$10.00. For the purposes of this estimate, the Department assumes that the dispensing fee would be increase from \$1.89 to \$8.00. The Department applied this difference to the potential number of claims that would be eligible for 340B pricing. The Department assumes that the new dispensing fee would apply to all 340B pharmacies including mail-order pharmacies and local pharmacies. The total estimate cost to increase the dispensing fee was adjusted by the estimated percentage increase in Medical Services Premiums. The estimate was then discounted for the estimated participation rate and number of months of implementation in the fiscal year. Detailed tables of these changes are available in Appendices 2.0 through 2.1.

The Department would remove the co-pay amount required from patients. Currently certain categories of clients pay \$1.00 for generic drugs and \$3.00 for name brand drugs. Using the FY 06-07 ratio of generic to name brand drugs, additional costs borne by the Department for medications were estimated. This number was increased by the estimated percentage increase in Medical Services Premiums. The estimate was then discounted for the estimated participation rate and number of months of implementation in the fiscal year. Detailed tables of these changes are available in Appendices 2.2 through 2.3.

Impact on Other Government Agencies: None.

Cost Benefit Analysis:

As shown in the table below, the Department anticipates that implementing the changes to 340B pharmaceutical pricing in FY 08-09 will result in net savings totaling more than \$1,168,565 between FY 08-09 and FY 09-10.

Row	Fiscal Year	Total Funds	General Fund	Federal Funds	Description
Estimated Gross Savings					
A	FY 08-09	(\$86,213)	(\$43,106)	(\$43,107)	Row C (Appendix 1.2)
B	FY 09-10	(\$1,082,352)	(\$541,176)	(\$541,176)	Row F (Appendix 1.2)
Estimated Costs					
C	FY 08-09	\$74,916	\$37,458	\$37,458	Row C (Appendix 2.1) + Row C (Appendix 2.3) + FY 08-09 Total (Table 3)
D	FY 09-10	\$214,598	\$107,299	\$107,299	Row F (Appendix 2.1) + Row F (Appendix 2.3) + FY 09-10 Total (Table 3)
Estimated Net Savings					
E	FY 08-09	(\$11,297)	(\$5,648)	(\$5,649)	Row A + Row C
F	FY 09-10	(\$867,754)	(\$433,877)	(\$433,877)	Row B + Row D

Implementation Schedule:

Implementation Plan for 340B Pricing		
Task	Month/Year	Description
Begin Internal Research/Planning Period	May-08	Assumes research begins with the passage of the long bill.
FTE Hired	July-08	Assumes 2 months to hire 1 General Professional IV.
State Plan Amendment Written	August-08	Assumes 1 month to write and submit the state plan amendment.
Rules Written	September-08	Assumes 2 months to write and submit rules.
Waiver Written and Submitted	October-08	Assumes 3 months to write and submit the waiver.
State Plan Amendment Approved	November-08	Assumes 3 months to receive approval of the state plan amendment.
Rules Passed	December-08	Assumes 3 months to receive approval from the Medical Services Board.
RFP Issued	January-09	Assumes begin writing the RFP in October-08 and 3 months to write and distribute the RFP.
Mail-order Pharmacy Vendor Selected	April-09	Assumes 4 months to obtain a contractor.
Waiver Approved	April-09	Assumes 6 months to receive federal approval.
Start-Up Date	April-09	Assumes 10 months to implement 340B Pricing.

Statutory and Federal Authority:

42 U.S.C. Section 256b

(a) Requirements for agreement with Secretary - (1) *In general The Secretary shall enter into an agreement with each manufacturer of covered drugs under which the amount required to be paid (taking into account any rebate or discount, as provided by the Secretary) to the manufacturer for covered drugs (other than drugs described in paragraph (3)) purchased by a covered entity on or after the first day of the first month that begins after November 4, 1992, does not exceed an amount equal to the average manufacturer price for the drug under title XIX of the Social Security Act [42 U.S.C. 1396 et seq.] in the preceding calendar quarter, reduced by the rebate percentage described in paragraph (2).*

(2) “Rebate percentage” defined (A) *In general*

For a covered outpatient drug purchased in a calendar quarter, the “rebate percentage” is the amount (expressed as a percentage) equal to—

(i) the average total rebate required under section 1927(c) of the Social Security Act [42 U.S.C. 1396r-8 (c)] with respect to the drug (for a unit of the dosage form and strength involved) during the preceding calendar quarter; divided by

(ii) the average manufacturer price for such a unit of the drug during such quarter.

4)(A) The term “covered entity” means an entity that meets the requirements described in paragraph (5) and is one of the following: A Federally-qualified health center (as defined in section 1905(l)(2)(B) of the Social Security Act [42 U.S.C. 1396d(l)(2)(B)]).

(5) Requirements for covered entities

(A) Prohibiting duplicate discounts or rebates

(i) In general A covered entity shall not request payment under title XIX of the Social Security Act [42 U.S.C. 1396 et seq.] for medical assistance described in section 1905(a)(12) of such Act [42 U.S.C. 1396d(a)(12)] with respect to a drug that is subject to an agreement under this section if the drug is subject to the payment of a rebate to the State under section 1927 of such Act [42 U.S.C. 1396r-8].

Performance Measures:

This supplemental request affects the Department’s following Objective:

- Assure delivery of appropriate, high quality health care in the most cost-effective manner possible. Design programs that result in improved health status for clients served and improve health outcomes. Expand and preserve health care services through the purchase of services in the most cost effective manner possible.

The Department believes that expanding the use of 340B pricing will provide more cost-effective pharmaceuticals to clients.

Appendix 1.0: Estimate of Potential Drug Savings Based on Actual Pharmaceutical Expenditures and Rebates for FY 06-07²

Row	Item	Total	Description
A	Total Medical Services Premiums Expenditures	\$2,048,437,415	FY 08-09 Budget Request, November 1, 2007; page EM-1.
B	Prescription Drug Costs	\$189,833,449	
C	Prescription Drug Rebates	\$58,644,804	
D	Prescription Drug Costs Net of Rebates	\$131,188,645	Row B - Row C.
D.1	Percentage of Prescription Drug Costs Net of Rebates to Total Medical Services Premiums Expenditures	6.40%	Row D / Row A.
E	Percentage of Medicaid Clients with at Least One Visit to an Federally Qualified Health Center (FQHC)	31.11%	Query of FY 06-07 Medicaid claims data available in the Medicaid Management Information System pulled 11/5/2007.
F	Percentage of Medicaid Clients Obtaining at Least one Maintenance Drug	24.17%	Query of FY 06-07 Medicaid claims data available in the Medicaid Management Information System pulled 11/5/2007.
G	Total Drug Costs from FY 06-07 Impacted by the Implementation of 340B Pricing	\$9,864,451	Row D * Row E * Row F.
H	Estimated Savings from Implementation of 340B Pricing	19.00%	Heinz Family Philanthropies, The Oregon Blueprint - Coordinated Contracting of Prescription Drugs for the State of Oregon, page 18.
I	Total Estimated Potential Savings as a Result of 340B Pricing	(\$1,874,246)	Row G * Row H * -1.

Appendix 1.1: Estimate of Potential Drug Savings Adjusted for Growth in Medical Services Premiums²

Row	Item	Total	Description
FY 07-08			
A	Total Estimated Medical Services Premiums Expenditures	\$2,161,523,892	FY 08-09 Budget Request, November 1, 2007; page ED-1.
A.1	Estimated Percentage Increase from Prior Year	5.52%	(Row A - Row A (Appendix 1.0)) / Row A (Appendix 1.0)
B	Estimated Prescription Drug Costs Net of Rebates	\$138,431,074	Row A * Row D.1 (Appendix 1.0).
C	FY 07-08 Total Estimated Potential Savings as a Result of 340B Pricing	(\$1,977,716)	Row B * Row E (Appendix 1.0) * Row F (Appendix 1.0) * Row H (Appendix 1.0) * -1, Rounded to 0 Decimal Places.
FY 08-09			
D	Total Requested Medical Services Premiums Expenditures	\$2,261,413,816	FY 08-09 Budget Request, November 1, 2007; page ED-1.
D.1	Estimated Percentage Increase from Prior Year	4.62%	(Row D - Row A) / Row A
E	Estimated Prescription Drug Costs Net of Rebates	\$144,828,352	Row D * Row D.1 (Appendix 1.0).
F	FY 08-09 Total Estimated Potential Savings as a Result of 340B Pricing	(\$2,069,111)	Row E * Row E (Appendix 1.0) * Row F (Appendix 1.0) * Row H (Appendix 1.0) * -1, Rounded to 0 Decimal Places.
FY 09-10			
G	Total Requested Medical Services Premiums FY 07-08 to FY 08-09 Percentage Increase ³	4.62%	FY 08-09 Budget Request, November 1, 2007; page ED-1.
H	Total Requested Medical Services Premiums Expenditures	\$2,365,891,134	Row D * (1 + Row G), Rounded to 0 Decimal Places.
I	Estimated Prescription Drug Costs Net of Rebates	\$151,519,421	Row H * Row D.1 (Appendix 1.0).
J	FY 09-10 Total Estimated Potential Savings as a Result of 340B Pricing	(\$2,164,704)	Row I * Row E (Appendix 1.0) * Row F (Appendix 1.0) * Row H (Appendix 1.0) * -1, Rounded to 0 Decimal Places.

Appendix 1.2: Estimated Savings Adjusted for the Implementation Timeline²

Row	Item	Total	Description
FY 08-09			
A	Percentage of Fiscal Year 340B Pricing Implemented	16.67%	2 months, see the Implementation Plan.
B	Estimated Participation Rate	25%	See Narrative for explanation.
C	Estimated FY 08-09 Savings	(\$86,213)	Row C (Appendix 1.1) * Row A * Row B.
FY 09-10			
D	Percentage of Fiscal Year 340B Pricing Implemented	100%	See the Implementation Plan.
E	Estimated Participation Rate	50%	See Narrative for explanation.
F	Estimated FY 09-10 Savings	(\$1,082,352)	Row J (Appendix 1.1) * Row D * Row E.

Appendix 2.0: Cost of Increasing Dispensing Fees for Local and Mail-Order Pharmacies²

Row	Item	Total	Description
A	FY 06-07 Total Estimated Federally Qualified Health Center (FQHC) Claims for Drugs Currently not Receiving 340B Pricing	25,953	Query of Medicaid claims data available in the Medicaid Management Information System pulled 11/5/2007.
B	FY 06-07 Total Estimated Federally Qualified Health Center (FQHC) Claims for Drugs Currently Receiving 340B Pricing	288	Query of Medicaid claims data available in the Medicaid Management Information System pulled 11/5/2007.
C	FY 06-07 Denver Health Claims Currently Receiving 340B Pricing	9,801	Query of Medicaid claims data available in the Medicaid Management Information System pulled 1/25/2008.
D	FY 06-07 Total Claims Subject to Increased Dispensing Fees	36,042	Row A + Row B + Row C.
E	FY 06-07 Dispensing Fee for 340B Pricing	\$1.89	Current Medicaid Reimbursement Rate.
F	Estimated Dispensing Fee After 340B Pricing Implementation	\$8.00	See Narrative for Description.
G	FY 06-07 Total Dispensing Fee Costs	\$68,119	Row D * Row E, Rounded to 0 Decimal Places.
H	Estimated Annual Dispensing Fee Cost After 340B Pricing Implementation	\$288,336	Row D * Row F.
I	FY 06-07 Incremental Cost for Increase to the Dispensing Fee	\$220,217	Row H - Row G.
J	FY 07-08 Incremental Cost for Increase to the Dispensing Fee	\$232,374	Row I * (1 + Row A.1 (Appendix 1.1)).
K	FY 08-09 Incremental Cost for Increase to the Dispensing Fee	\$243,113	Row J * (1 + Row D.1 (Appendix 1.1)).
L	FY 09-10 Incremental Cost for Increase to the Dispensing Fee	\$254,345	Row K * (1 + Row G (Appendix 1.1)).

Appendix 2.1: Cost of Increasing Dispensing Fees Adjusted for Participation Rate by Fiscal Year²

Row	Item	Total	Description
FY 08-09			
A	Percentage of Fiscal Year 340B Pricing Implemented	16.67%	See the Implementation Plan.
B	Estimated Participation Rate	25%	See Narrative for explanation.
C	Estimated FY 08-09 Cost	\$10,130	Row K (Appendix 2.0) * Row A * Row B, Rounded to 0 Decimal Places.
FY 09-10			
D	Percentage of Fiscal Year 340B Pricing Implemented	100%	See the Implementation Plan.
E	Estimated Participation Rate	50%	See Narrative for explanation.
F	Estimated FY 09-10 Cost	\$127,172	Row L (Appendix 2.0) * Row D * Row E, Rounded to 0 Decimal Places.

Appendix 2.2: Cost of Waiving Client Co-Pay for 340B Obtained Pharmaceuticals²

Row	Item	Total	Description
A	FY 06-07 Percentage of Generic Drug Claims filled by Denver Health at 340B Pricing	56.39%	Query of Medicaid claims data available in the Medicaid Management Information System pulled 1/25/2008.
B	Co-Pay for Generic Drug Claims	\$1.00	Current Medicaid Reimbursement Rate.
C	Total FY 06-07 Co-pay for Generic Drug Claims	\$20,324	Row D (Appendix 2.0) * Row A * Row B.
D	FY 06-07 Percentage of Brand Drug Claims filled by Denver Health at 340B Pricing	16.90%	Query of Medicaid claims data available in the Medicaid Management Information System pulled 1/25/2008.
E	Co-Pay for Generic Drug Claims	\$3.00	Current Medicaid Reimbursement Rate.
F	Total FY 06-07 Co-pay for Generic Drug Claims	\$18,273	Row D (Appendix 2.0) * Row D * Row E.
G	FY 06-07 Cost of Waiving Copayments for 340B Pricing	\$38,597	Row C + Row F.
H	FY 07-08 Cost of Waiving Copayments for 340B Pricing	\$40,728	Row G * (1 + Row A.1 (Appendix 1.1)).
I	FY 08-09 Cost of Waiving Copayments for 340B Pricing	\$42,610	Row H * (1 + Row D.1 (Appendix 1.1)).
J	FY 09-10 Cost of Waiving Copayments for 340B Pricing	\$44,579	Row I * (1 + Row G (Appendix 1.1)).

*Please note that adding the Generic and brand drug claims does not add to 100%. Certain Medicaid Populations are exempt from co-pays current and there would be no additional costs for these clients.

Appendix 2.3: Cost of Waiving Client Co-pays for Participation Rate by Fiscal Year²

Row	Item	Total	Description
FY 08-09			
A	Percentage of Fiscal Year 340B Pricing Implemented	16.67%	See the Implementation Plan.
B	Estimated Participation Rate	25%	See Narrative for explanation.
C	Estimated FY 08-09 Cost	\$1,775	Row I (Appendix 2.2) * Row A * Row B, Rounded to 0 Decimal Places.
FY 09-10			
D	Percentage of Fiscal Year 340B Pricing Implemented	100%	See the Implementation Plan.
E	Estimated Participation Rate	50%	See Narrative for explanation.
F	Estimated FY 09-10 Cost	\$22,289	Row J (Appendix 2.2) * Row D * Row E, Rounded to 0 Decimal Places.

¹ www.340bpvp.com

² For the purposes of reporting, some of these numbers have been rounded. As a result, calculating these figures by hand may cause minor differences in the numbers.

³ The Department does not currently have estimated expenditures for FY 09-10. As a result, the prior year percentage increase was multiplied by the FY 08-09 estimated expenditures to create a FY 09-10 estimate.