

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

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 checked="" type="checkbox"/>			Supplemental FY 07-08		Budget Request Amendment FY 08-09	
Request Title:		Revised Tobacco Tax Funding for CBMS									
Department:		Health Care Policy and Financing			Dept. Approval by: <i>John Bartholomey</i>			Date: November 1, 2007			
Priority Number:		BRI - 1			OSPB Approval: <i>Sumner</i>			Date: 10/23/07 for 11/1/07			
		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	7,532,758	8,716,030	0	8,716,030	7,975,468	0	7,975,468	0	7,975,468	0
	FTE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	GF	3,458,114	4,021,332	0	4,021,332	3,677,330	(417,996)	3,259,334	0	3,259,334	(417,996)
	GFE	0	0	0	0	0	0	0	0	0	0
	CF	0	0	0	0	0	0	0	0	0	0
	CFE	516,953	580,621	0	580,621	532,547	417,996	950,543	0	950,543	417,996
	FF	3,557,691	4,114,077	0	4,114,077	3,765,591	0	3,765,591	0	3,765,591	0
(6) DHS Medicaid Funded Programs -	Total	7,532,758	8,716,030	0	8,716,030	7,975,468	0	7,975,468	0	7,975,468	0
(B) Office of Information Technology Services -	FTE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Colorado Benefits Management System	GF	3,458,114	4,021,332	0	4,021,332	3,677,330	(417,996)	3,259,334	0	3,259,334	(417,996)
	GFE	0	0	0	0	0	0	0	0	0	0
	CF	0	0	0	0	0	0	0	0	0	0
	CFE	516,953	580,621	0	580,621	532,547	417,996	950,543	0	950,543	417,996
	FF	3,557,691	4,114,077	0	4,114,077	3,765,591	0	3,765,591	0	3,765,591	0
Letternote revised text:		(6) Department of Human Services - Medicaid Funded Programs, (B) Office of Information Technology Services - Medicaid Funding, Colorado Benefits Management System: a) Of this amount, \$279,574 shall be from the Children's Basic Health Trust Fund created in Section 25 5-8-105 (1), C.R.S.; 5630.055 shall be from Health Care Expansion Fund created in Section 24-22-117 (2) (a) (I), C.R.S.; and \$40,877(T) shall be from moneys in the Old Age Pension Fund appropriated to the Department of Human Services, pursuant to Article 24 of the State Constitution									
Cash Fund name/number, Federal Fund Grant name:		Cash Funds Exempt Children's Basic Health Plan Trust Fund, Health Care Expansion Fund									
IT Request:		Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>									
Request Affects Other Departments:		Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> If Yes, List Other Departments Here:									

CHANGE REQUEST for FY 08-09 BUDGET REQUEST CYCLE

Department:	Health Care Policy and Financing
Priority Number:	BRI-1
Change Request Title:	Revised Tobacco Tax Funding for CBMS

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:

This Base Reduction Item seeks to refinance \$417,996 in General Fund and \$149,195 Cash Funds Exempt from the Children’s Basic Health Plan Trust Fund with Health Care Expansion Fund money in the Colorado Benefits Management System line. This funding will be used to pay the processing costs associated with expansion clients served by Medicaid and the Children’s Basic Health Plan, respectively, as a result of the passage of HB 05-1262.

Background and Appropriation History:

During the elections of 2004, Colorado voters passed Amendment 35 that authorized the State of Colorado to levy an additional tax on cigarettes and other tobacco products. Amendment 35 stipulated that the additional revenue collected as a result of the tobacco tax will be used to provide tobacco education programs, smoking prevention programs, and additional health care services for Colorado’s population.

In order to utilize revenue generated by the tobacco tax, the Colorado Legislature passed HB 05-1262 during the 2005 legislative session. This bill specified the types of services and populations that could be funded with the tobacco tax revenues. Of the programs created in HB 05-1262, the Department administers the Primary Care Fund and the Health

Care Expansion Fund directly. The Department also has funds appropriated to it for other programs administered by the Department of Human Services and the Department of Public Health and Environment.

The Health Care Expansion Fund provides funding for a number of expansion populations created as a result of HB 05-1262, as follows:

- Expansion of the Children's Basic Health Plan coverage to include individuals between 186% and 200% of the federal poverty level,
- Coverage for clients enrolled in the Children's Basic Health Plan above the FY 03-04 enrollment levels,
- Clients eligible for Medicaid due to the removal of the asset test,
- Elimination of the Children's Extensive Support and Children's Home and Community Based Services waitlists,
- Medical assistance to legal immigrants,
- Expansion to 60% of the federal poverty level for parents of Medicaid or Children's Basic Health Plan eligible clients,
- Presumptive Eligibility for pregnant women.

An additional stipulation of the Health Care Expansion Fund money in HB 05-1262 was that the funds could only be used to serve populations eligible as a result of expanded eligibility criteria.

Eligibility for each of these expansion populations, with the exception of the presumptive eligibility population, is processed through the Colorado Benefits Management System. The Colorado Benefits Management System is the State's integrated eligibility determination system that processes eligibility for 36 medical and financial assistance programs administered by the Department or the Department of Human Services. Currently, State and federal costs for the Colorado Benefits Management System are allocated to each program through the Colorado Benefits Management System calculator, with the exception of a small portion of Health Care Expansion Fund money that receives

a 50% federal Medicaid match only. This calculator is the only federally approved method of allocating costs among the various programs that receive federal match funds.

When the Department projected the impact of HB 05-1262, it requested \$125,728 in total funds for additional mailings required as a result of the expansion populations, without any additional funding to pay for operational costs associated with eligibility processing.

General Description of Request:

This is a technical adjustment to the current appropriation as the Department would realize a General Fund savings of \$417,996 that would be offset by an increase in the amount of Cash Funds Exempt requested. In addition, the request refinances \$149,195 in Cash Funds Exempt from the Children's Basic Health Plan Trust with Health Care Expansion Fund revenue to pay for processing eligibility of expansion clients. There is a net-zero total funds change to this request.

The Department believes that Health Care Expansion Fund money is the appropriate revenue stream to fund the clients eligible for Medicaid or the Children's Basic Health Plan as a result of the expanded eligibility groups created in HB 05-1262. However, since FY 05-06, all eligibility processing for expansion clients (with the exception of \$125,728 for mailings and postage) has been financed through the Colorado Benefits Management System calculator. The Colorado Benefits Management System calculator, unfortunately, allocates costs among the various Medicaid, Children's Basic Health Plan, and Old Age Pension Fund programs, without any adjustment for new revenue streams since it was first derived for financing the CBMS development cost allocation, including Health Care Expansion Fund revenue. Because of this, the Department believes that there is a significant amount of State share in operational costs for the Colorado Benefits Management System that can be refinanced with Health Care Expansion Fund moneys.

This request only seeks to refinance the allowable Medicaid and Children's Basic Health Plan expansion client eligibility costs. Because the Health Care Expansion Fund does not provide funding for increased eligibility in the Old Age Pension program, this request does not seek Cash Funds Exempt from the Health Care Expansion Fund to supplant any portion of the Old Age Pension share of the Colorado Benefits Management System's operational costs. Additionally, even though the Health Care Expansion Fund does

provide funding for the Medicaid Presumptive Eligibility population, since eligibility for individuals enrolled in that program is not processed through the Colorado Benefits Management System, this population was also excluded from the refinancing calculation.

24-22-117 (2) (a) (II) (A-H), C.R.S. (2007) authorizes the State to pay for the aforementioned expansion populations using Health Care Expansion Fund money. This request allows the Department to take advantage of its ability to pay for the expansion populations' administrative costs with Health Care Expansion Fund money and realize General Fund savings at the same time.

Consequences if Not Funded:

If this request is not funded, the State would not be able to maximize the use of Health Care Expansion Fund money as an offset to General Fund and would not make a consistent policy for using Health Care Expansion Fund money to support the administrative costs associated with expansion clients.

Calculations for Request:

The following tables show how the Department developed its calculation of the portion of expansion fund clients served relative to the Department's projected caseload.

Summary of General Fund Impact of Budget Reduction Item #1				
	Total Funds	General Fund	Cash Funds Exempt	Federal Funds
FY 08-09 Base Request	\$7,975,468	\$3,677,330	\$532,547	\$3,765,591
FY 08-09 Medicaid Expansion Client Refinancing (Table 4, row q)	\$0	(\$417,996)	\$417,996	\$0
Total FY 08-09 Request	\$7,975,468	\$3,259,334	\$950,543	\$3,765,591

Table 1: Projected FY 08-09 Expansion Caseload	
Medicaid	Projected Caseload
Expansion Adults ¹	9,462
Legal Immigrants ¹	3,512
Children's Home and Community Based Services ¹	678
Children's Extensive Support ¹	79
Asset Test Removal Population	35,536
Total FY 08-09 Projected Medicaid Expansion Caseload	49,267
Children's Basic Health Plan	
Medical ²	20,460
Prenatal ²	1,377
<i>Total FY 08-09 Projected Children's Basic Health Plan Expansion Caseload</i>	<i>21,837</i>
Total FY 08-09 Projected Expansion Caseload	71,104

- 1) Caseload amounts taken from the Department's November 1, 2007 Medical Services Premiums, Exhibits EA -6 and -7.
- 2) Taken from the November 1, 2007 Children's Basic Health Plan DI – 3, Exhibit C.3.

Table 2: Expansion Population as a Percent of Total Caseload	
	Total Caseload
Children's Basic Health Plan Population - Total FY 08-09 Caseload	63,978
Medicaid Population - Total FY 08-09 Caseload	383,067
Total Projected FY 08-09 Caseload	447,045
Children's Basic Health Plan Population - FY 08-09 Expansion Caseload	21,837
Medicaid Population - FY 08-09 Expansion Caseload	49,267
Total Projected FY 08-09 Expansion Caseload	71,104
Children's Basic Health Plan Population (Equal to 21,837/447,045)	4.88%
Medicaid Population (Equal to 49,267/447,045)	11.02%
Total Projected Percent Expansion Caseload	15.91%

Table 3: Allocation of Funding for the Expansion Population	
Description	Amount
a. FY 08-09 Base Request Funding for CBMS Operations from Health Care Policy and Financing Only	\$8,726,570
b. Projected Total Caseload (November 1, 2007 Budget Request, Exhibit EB-1, DI-3 Exhibit C.3)	447,045
c. FY 08-09 Projected Medicaid Expansion Caseload (November 1, 2007 Budget Request, Exhibit EA-1)	49,267
d. FY 08-09 Projected Medicaid Expansion Caseload as a Percent of Total Caseload (c / b)	11.02%
e. FY 08-09 Base Request that should be allocated to Medicaid Expansion Caseload (a * d)	\$961,720
f. Health Care Expansion Fund portion (e * 50%)	\$480,860
g. Federal Funds portion (e * 50%)	\$480,860
h. FY 08-09 Projected CBHP Expansion Caseload (November 1, 2007 Budget Request, DI-3 - Exhibit C.3)	21,837
i. FY 08-09 Projected CBHP Expansion Caseload as a Percent of Total Caseload (h / b)	4.88%
j. FY 08-09 Base Request that should be allocated to CBHP Expansion Caseload (a * i)	\$426,271
k. Health Care Expansion Fund portion (j * 35%)	\$149,195
l. Federal Funds portion (j * 65%)	\$277,076

Table 4: FY 08-09 Medicaid Expansion Population Need					
			Cash Funds Exempt		
	Total Funds	General Fund	Health Care Expansion Fund	Children's Basic Health Plan	Federal Funds
m. Need for Medicaid Expansion Clients (e through g in Table 5)	\$961,720	\$0	\$480,860	\$0	\$480,860
n. Base Request Funding for Expansion Clients (assumed 100% Medicaid)	\$125,728	\$0	\$62,864	\$0	\$62,864
o. Health Care Expansion Funding for Medicaid Expansion Clients Beyond Base Request Funding (m - n)	\$835,992	\$0	\$417,996	\$0	\$417,996
p. Offsetting Reduction to Traditional Medicaid Client Funding for this Expansion Population	(\$835,992)	(\$417,996)	\$0	\$0	(\$417,996)
q. Request for Medicaid Expansion Clients Refinancing (o + p)	\$0	(\$417,996)	\$417,996	\$0	\$0

Table 5: FY 08-09 Children's Basic Health Plan Expansion Population Need					
			Cash Funds Exempt		
	Total Funds	General Fund	Health Care Expansion Fund	Children's Basic Health Plan	Federal Funds
r. Need for CBHP Expansion Clients (j through l in Table 5)	\$426,271	\$0	\$149,195	\$0	\$277,076
s. Base Request Funding for Expansion Clients (assumed 0% for CBHP)	\$0	\$0	\$0	\$0	\$0
t. Health Care Expansion Funding for CBHP Expansion Clients Beyond Base Request Funding (r - s)	\$426,271	\$0	\$149,195	\$0	\$277,076
u. Offsetting Reduction to Traditional CBHP Client Funding for this Expansion Population	(\$426,271)	\$0	\$0	(\$149,195)	(\$277,076)
v. Request for Medicaid Expansion Clients Refinancing (t + u)	\$0	\$0	\$149,195	(\$149,195)	\$0

Assumptions for Calculations:

Table 1

The Department has used the latest FY 08-09 caseload projection of the expansion populations, except for the asset test removal population, as reported in the November 1, 2007 Budget Request, Tobacco Tax Update, Appendix Page 2. For the asset test removal population, the Department has used the caseload information as reported in its tobacco tax report on this population and adjusted it to reflect the fact that the Department cannot obtain asset information on approximately half of the potential asset test removal population. The Department must rely on information collected from individuals that apply for Medicaid and a financial assistance program that requires asset information to project the total asset test removal population.

Table 2

In this table, the Department has reported the total caseload for the Children's Basic Health Plan and Medicaid programs for FY 08-09 as presented in the November 1, 2007 caseload update. The Department has taken a ratio of the projected expansion population caseload reported in Table 1 to the total population listed in Table 2 to calculate the portion of all Health Care Policy and Financing Colorado Benefits Management System activity that can be attributed to the Health Care Expansion Fund populations. As reported in the table, roughly 4.88% of all Colorado Benefits Management System costs can be attributed to the Children's Basic Health Plan expansion clients and 11.02% are attributable to Medicaid expansion clients.

Table 3

Table 3 provides the detail regarding the Department's projection of Health Care Expansion Fund need. The Department has used the FY 08-09 Base Request for the Colorado Benefits Management System as shown on the Schedule 3s, (6) DHS Medicaid Funded Programs tab, page D.6-6.

The portion of total funding attributable to the Medicaid expansion population was calculated by taking the product of the FY 08-09 Colorado Benefits Management System base and the ratio of Medicaid expansion caseload to total caseload as calculated in Table 2. Because Medicaid expenditures receive a 50% federal match, the total expansion Medicaid portion is multiplied by 50% to calculate the State's portion of costs.

The portion of Children's Basic Health Plan Trust Fund money that will be replaced with Health Care Expansion Fund money was calculated in much the same way that the Medicaid portion was calculated. However, the Children's Basic Health Plan receives a 65% match on State expenditures, so the amount of Children's Basic Health Plan Trust Fund money that could be replaced with Health Care Expansion Fund Cash Funds Exempt is markedly different than it would be for Medicaid costs.

Table 4

In Table 4, the Department has outlined the types and amount of funding changes needed to allocate the proper portion of total Medicaid expansion client costs to the Colorado Benefits Management System line. In total, the Department has projected that \$480,860 in General Fund can be replaced with Health Care Expansion Fund money. However, because \$62,864 in Health Care Expansion Fund money has already been appropriated to the Colorado Benefits Management System line, the Department has assumed that this amount will partially offset the total need. The final projected Health Care Expansion Fund need is \$417,996 in Cash Funds Exempt. Please refer to the assumptions and calculations for Table 3 for further information on how these projections were developed.

Table 5

Table 5 provides the changes that will be necessary to correct the amount of Health Care Expansion Fund money that will replace Cash Funds Exempt from the Children's Basic Health Plan Trust Fund. Because the amount of Health Care Expansion Fund money already appropriated to the Colorado Benefits Management uses the Medicaid federal match rate of 50%, the Department has assumed that there was no Health Care Expansion Fund money used to credit the State's portion of Children's Basic Health Plan expansion clients' administrative expenditures. The Department has projected a Cash Funds Exempt need from the Health Care Expansion Fund of \$149,195. Because the Children's Basic Health Plan receives a 65% federal match on expenditures, reallocating \$149,195 in Cash Funds Exempt requires a reallocation of \$426,271. Please refer to the assumptions and calculations for Table 3 for further information on how these projections were developed.

Impact on Other Government Agencies: This request does not affect any other State agencies. Because this request is a net-zero total funds request for the Department, all funds transferred to the Department of Human Services will remain unchanged in total.

Cost Benefit Analysis:

Cost (Total Funds)	Benefit
\$0	The Department would be able to realize a General Fund savings of \$417,996 if this request is approved. In addition, the Department would reflect the appropriate funding source for the administrative costs for Health Care Expansion Fund clients served through the Department's various programs. This request also allows the Department to utilize \$149,195 in Health Care Expansion Fund Cash Funds Exempt in place of the same amount of Children's Basic Health Plan Cash Funds Exempt moneys for expansion clients.

Statutory and Federal Authority: 24-37.5-101, C.R.S. (2007) Legislative declaration - findings. *(1) The general assembly hereby finds and declares that: (a) Communication and information resources in the various agencies of state government are valuable strategic assets belonging to the people of Colorado that must be managed accordingly; (b) Technological and theoretical advances in the area of communication and information use are recent in origin, immense in scope and complexity, and progressing rapidly; (c) The nature of these advances presents Colorado with the opportunity to provide higher quality, more timely, and more cost-effective governmental services; (d) Agencies independently acquire uncoordinated and duplicative information resource technologies that are more appropriately acquired as part of a coordinated effort for maximum cost effectiveness and use; (e) The sharing of communication and information resource technologies among agencies is often the most cost-effective method of providing the highest quality and most timely governmental services that would otherwise be cost prohibitive; (f) Considerations of both cost and the need for the transfer of information among the various agencies and branches of state government in the most timely and useful form possible require a uniform policy and coordinated system for the use and acquisition of communication and information resource technologies; and (g) It is the policy of this*

state to coordinate and direct the use of communication and information resources technologies by state agencies and to provide as soon as possible the most cost-effective and useful retrieval and exchange of information both within and among the various state agencies and branches of government and from the state agencies and branches of government to the people of Colorado. To that end, the office of information technology is created.

25.5-4-205, C.R.S. (2007) Application - verification of eligibility - demonstration project - rules - repeal. (1) (a) Determination of eligibility for medical benefits shall be made by the county department in which the applicant resides, except as otherwise specified in this section. Local social security offices also determine eligibility for medicaid benefits at the same time they determine eligibility for supplemental security income. The state department may accept medical assistance applications and determine medical assistance eligibility and may designate the private service contractor that administers the children's basic health plan, Denver health and hospitals, a hospital that is designated as a regional pediatric trauma center, as defined in section 25-3.5-703 (4) (f), C.R.S., and other medical assistance sites determined necessary by the state department to accept medical assistance applications, to determine medical assistance eligibility, and to determine presumptive eligibility. When the state department determines that it is necessary to designate an additional medical assistance site, the state department shall notify the county in which the medical assistance site is located that an additional medical assistance site has been designated. Any person who is determined to be eligible pursuant to the requirements of this article and articles 5 and 6 of this title shall be eligible for benefits until such person is determined to be ineligible. Upon determination that any person is ineligible for medical benefits, the county department, the state department, or other entity designated by the state department shall notify the applicant in writing of its decision and the reason therefore. Separate determination of eligibility and formal application for benefits under this article and articles 5 and 6 of this title for persons eligible as provided in sections 25.5-5-101 and 25.5-5-201 shall be made in accordance with the rules of the state department.

Performance Measures:

This request is supportive of the following performance measure because it seeks to increase the Department's budgetary accuracy in allocating expenditures to the Health Care Expansion Fund for Colorado Benefits Management System eligibility processing:

- Maintain or reduce the difference between the Department's spending authority and actual expenditures for Medicaid services.

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

Schedule 13 Change Request for FY 08-09 Budget Request Cycle											
Request Title:		Decision Item FY 08-09	Base Reduction Item FY 08-09			Supplemental FY 07-08	Budget Request Amendment FY 08-09				
Implement Preferred Drug List											
Department:		Dept. Approval by:			Date:		Date:				
Health Care Policy and Financing		John Bartholomew <i>JB</i>			November 1, 2007		10/17/07 for 11/1/07				
Priority Number:		OSPB Approval:			Date:		Date:				
BRI-2											
		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
Fund											
Total of All Line Items		Total 2,061,688,246	2,148,163,051	0	2,148,163,051	2,147,931,133	(793,091)	2,147,138,042	0	2,147,138,042	(1,312,041)
FTE		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
GF		633,450,573	652,497,536	0	652,497,536	651,588,778	(320,510)	651,268,268	0	651,268,268	(579,985)
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		1,036,277,467	1,075,725,891	0	1,075,725,891	1,075,609,932	(472,581)	1,075,137,351	0	1,075,137,351	(732,056)
(1) Executive Director's Office		Total 291,438	304,143	0	304,143	304,143	0	304,143	0	304,143	0
FTE		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Drug Utilization Review		GF 72,859	76,036	0	76,036	76,036	76,036	152,072	0	152,072	76,036
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		218,579	228,107	0	228,107	228,107	(76,036)	152,071	0	152,071	(76,036)
(2) Medical Services Premiums		Total 2,061,396,808	2,147,858,908	0	2,147,858,908	2,147,626,990	(793,091)	2,146,833,899	0	2,146,833,899	(1,312,041)
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	(396,546)	651,116,196	0	651,116,196	(656,021)
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	(396,545)	1,074,985,280	0	1,074,985,280	(656,020)
Letternote revised text:											
Cash Fund name/number, Federal Fund Grant name:				FF: Title XIX							
IT Request: Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>											
Request Affects Other Departments: Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>				If Yes, List Other Departments Here:							

CHANGE REQUEST for FY 08-09 BUDGET REQUEST CYCLE

Department:	Health Care Policy and Financing
Priority Number:	BRI-2
Change Request Title:	Implement Preferred Drug List

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:

This Base Reduction Item is for a reduction in expenditures of \$793,091 total funds in FY 08-09 for a contractor to implement a preferred drug list (PDL) pursuant to Executive Order D 007 04. As part of this request, the Department would correct the federal match rate for the Drug Utilization Review line including the new preferred drug list contractor, the drug utilization review contract with Health Information Design, Inc. (HID) and the pharmacist incentive payments. This correction would adjust the line from a 75% federal match rate to a 50% federal match rate.

Background and Appropriation History:

In January 2007, Governor Ritter signed Executive Order D 004 07 establishing a preferred drug list for Colorado's Medicaid program. The purpose of this program is to provide needed medications to Medicaid clients while decreasing expenditures on pharmaceuticals. This Executive Order gives the Department the authority to implement a preferred drug list after evaluating various methods of implementation and determining the best option for Colorado. In addition, the Department will be responsible for forming a Pharmacy and Therapeutics Committee responsible for evaluating clinical data and evidence on all drugs under consideration for inclusion in the preferred drug list. The

Department will also evaluate and pursue supplemental rebates to further facilitate providing pharmaceuticals for Medicaid clients at the lowest possible cost.

Also proposed under SB 05-022, a 15-member Pharmacy and Therapeutics Committee would have been created to “use an evidence-based research approach to review and recommend drugs for inclusion on a preferred drug list for Medicaid recipients and specifies the factors the committee should use in reviewing and recommending drugs for the PDL” (Legislative Council Fiscal Note for SB 05-022, May 3, 2005, page 1). The fiscal note assumed that the Department would be able to obtain evidenced-based research from other states at no additional cost.

Description of Current Preferred Drug List Resources Appropriated:

In FY 07-08, the Department was appropriated funds for 3.0 FTE and \$194,877 for Personal Services and Operating Expenses which JBC staff referenced from the Legislative Council’s May 3, 2005 fiscal note for SB 05-022 which stated “...to provide the professional expertise required to create the [preferred drug list]... and to provide general support to the committee” (Figure Setting, February 14, 2007, page 14). While this bill failed during the second House reading, it provided the basis for the JBC action related to the Executive Order. In addition, \$340,880 was appropriated for Medicaid Management Information Systems changes, (Figure Setting, March 8, 2007, page 105), and \$670,376 was removed from the Department’s appropriation for Medical Services Premiums to reflect six months of expected savings in drug costs for FY 07-08 (Figure Setting, March 8, 2007, page 52).

FTE

The Department received \$48,720 for 3.0 FTE for one quarter of a year beginning in FY 06-07. In FY 07-08, the Department received \$194,878 for 3.0 FTE. The appropriated FTE includes a Pharmacist III, a General Professional III and a Statistical Analyst III. These FTE would remain within the Department to run the program, manage the preferred drug list contract and to implement supplemental rebates. As a result of the adjustments

to the scope of work, the Department changed the classification for these FTE. As a result, the FTE include a General Professional V, a Pharmacist II and a General Professional III. The Department will retain many of the responsibilities of administering the preferred drug list. Specific duties for the 3.0 FTE are provided below.

The Preferred Drug List Coordinator (General Professional V) would be responsible for:

- Completing the procurement process, selecting the preferred drug list contractor, and managing and overseeing performance of the contract;
- Overseeing implementation of the Medicaid rules for the preferred drug list and the Pharmacy and Therapeutic Committee;
- Submitting the State Plan amendment with the Centers for Medicare and Medicaid and monitoring the preferred drug list program to assure compliance with federal regulations;
- Reviewing contractor analysis Medicaid drug utilization data, average daily drug costs and methodologies for determining the cost effectiveness of drug classes;
- Overseeing the supplemental rebate process including solicitation of bids from drug manufacturers and negotiating and managing the supplemental rebate contracts;
- Assisting with the selection and appointment of Pharmacy and Therapeutic Committee members.

The Preferred Drug List Pharmacist (Pharmacist II) would be responsible for:

- Acting as point of contact for all clinical questions/issues for providers, drug manufacturers, advocacy groups, Medicaid stakeholders, and Pharmacy and Therapeutic Committee members;
- Reviewing quality of analysis provided by the preferred drug list contractor before making recommendations on which drugs should be considered for inclusion on the preferred drug list;
- Attending Pharmacy and Therapeutic Committee meetings;
- Reviewing systems requirements for program implementation including the Prescription Drug Card System, customer service requests and prior authorization criteria;
- Performing provider outreach and education, draft related documents, and;

The Preferred Drug List General Professional III would be responsible for:

- Collaborating with Coordinator on researching and preparing documents including the annual report on cost savings;
- Assisting the Pharmacist with the implementation of system changes including review of transmittals, testing plans and test results for claims processing;
- Assisting with program questions from clients, providers, pharmaceutical representatives and others related to the program;
- Assisting with the details of the supplemental rebate process including compiling, tracking, following-up and reporting of bid status on all submitted bids from pharmaceutical companies;
- Assisting with provider outreach and education by providing relevant information and creating materials to be used by Department personnel.

In addition, the Department is reviewing the FTE appropriated to the Department for the new Colorado Cares Rx program to identify any duplicative job duties that can be shared by a single FTE and increase efficiency. If the Department determines that different classifications are required, it will request a change during the normal budget process.

Medicaid Management Information System

The Department received \$340,880 for preferred drug list costs related to the Medicaid Management Information System in FY 07-08. This includes \$290,000 for prior authorizations and \$50,880 for ongoing maintenance costs. Prior authorizations will be required for all clients requiring non-preferred drugs. In FY 07-08, drug prior authorizations became part of the fixed price contract and as a result, the contractor, ACS, is obligated to handle all prior authorizations up to the cap set by the contract. Significant increases will cause the non-preferred drug list prior authorizations to exceed the cap. Until the fixed price contract could be renegotiated, the Department will be required to pay a per unit cost between \$10 and \$12. As a result, the Department expects to spend the entire \$290,000 appropriated for this purpose. In addition, system revisions will be necessary as additional drug classes are added to the preferred drug list. As a result of

these updates, the Department will fully expend the \$50,880 appropriated for Medicaid Management Information Systems maintenance.

Further, \$170,371 in one-time system costs were also added in FY 06-07 to make Medicaid Management Information System development changes. These include changes to the formulary, plan file, and edit changes needed for all drugs affected by this implementation. System changes were not implemented by the close of FY 06-07 and the Department has received rollforward authority to spend these moneys in FY 07-08.

Documented Quote

The Department assumes that to implement the Executive Order in a timely manner, a documented quote¹ will be necessary to begin the preferred drug list. This will allow the Department to move forward with the implementation process with a temporary contractor while preparing an RFP to hire a permanent contractor. This contract will begin in December 2007 and will end in June 2008; the total cost is \$119,000. The Department will fund the FY 07-08 preferred drug list contractor through the Drug Utilization Review line item.

The contractor will be responsible for implementing the first six drug classes including three drug classes to be added April 1, 2008 and three drug classes to be added July 1, 2008. The Department is currently considering two possible drug classes for implementation on April 1, 2008 including proton pump inhibitors (PPIs) and statins. Proton pump inhibitors are prescribed for stomach problems and include drugs such as Nexium, Prevacid and Prilosec. The statins drug class includes drugs that lower the level of cholesterol in the blood and include drugs such as Lipitor, Crestor and Zocor. The Department is still looking into the third drug class for implementation on April 1, 2008. The Department will determine additional drug classes to add to the preferred drug list on

¹ A documented quote is an abbreviated procurement process for soliciting bids for contracts between \$25,000 and \$150,000. The documented quote is required to be posted for a minimum of 3 working days rather than the 30 days required for an RFP. Documented quotes and RFPs both have a one year limit with the option to renew up to 4 additional years. The \$150,000 limit for a documented quote applies to the full duration of the contract including renewals.

July 1, 2008, after receiving recommendations from the Pharmacy and Therapeutics Committee and the preferred drug list contractor.

General Description of Request:

This request is for a reduction in expenditures of \$793,091 total funds for the Department to hire a preferred drug list contractor necessary to implement the preferred drug list. The Department's appropriation for FY 07-08 includes funding for 3.0 FTE in the Department and ongoing costs related to the Medicaid Management Information System, but does not include funding for any administrative contracts related to the implementation of the preferred drug list. Estimated savings from implementation of the preferred drug list would offset additional funds needed to hire a contractor.

As described in the Legislative Council fiscal note for SB 05-022, "... it is assumed that the department will be able to obtain evidence-based research from other state Medicaid programs or research facilities to develop the [preferred drug list]. If this assumption does not hold true, acquiring this information may cost up to \$100,000." (Legislative Council Fiscal Note for SB 05-022, May 3, 2005, page 3).

The Department conducted research on sources of clinical data available through other Medicaid programs or research facilities but was unable to locate sufficient free resources providing clinical data. There are 41 states that currently have or are implementing a preferred drug list. The Department is unaware of any preferred drug list programs that are not using a contractor to provide these functions. The Department believes that hiring a contractor is a more cost effective and efficient way to obtain this data and to provide required upkeep services than requesting additional Department staff to perform these functions. However, the 3.0 FTE appropriated to the Department would still be required to implement and oversee the preferred drug list program and implement and run the supplemental rebate process. In order to implement the preferred drug list by January 1, 2008, the Department will require both the appropriated 3.0 FTE and an administrative contractor.

Preferred Drug List Contractor Responsibilities

Under this alternative, the Department would hire a contractor to provide support services to the Pharmacy and Therapeutics Committee. The contractor would maintain a database of clinical data, create summary reports, and facilitate committee meetings. The Department assumes that the contractor would already have a compiled database of clinical information and experts to manage the database. As a result, analysis for the preferred drug list program for Colorado would begin as soon as the contractor was hired. In addition, the contractor would be required to update their database with information on each drug on a monthly basis. The contractor would also be required to have a decision support system in place to perform clinical evaluations. This would require the contractor to have expertise on evidence-based research and other clinical data on a national scale.

Implementation of the preferred drug list requires access to a comprehensive clinical database providing information including: peer reviewed medical literature, established clinical practice guidelines and Medicaid drug utilization data. Further, the contractor must be able to use flexible evaluation criteria in order to evaluate different scenarios under a preferred drug list. Implementation also requires the ability to analyze the clinical data and Medicaid drug utilization data using a decision support system. The Department does not currently have the resources in place to provide these services and would not be able to implement the preferred drug list in a timely fashion without the expertise of a contractor.

In addition, the contractor would be responsible for analyzing claims data from the Medicaid Management Information System to provide utilization reporting specific to Colorado. This would require a support system to store monthly claims data provided by the Department and historical claims data starting 18 months prior to the start of the program. With an April 1, 2008 start date, this will require the contractor to maintain claims data from October 1, 2006.

The contractor would be responsible for planning and management of committee meetings. The Department would require the contractor to retain a dedicated clinical

manager that is either a Registered Pharmacist or a Doctor of Pharmacy and is licensed in the State of Colorado. The contractor would be responsible for attending all committee meetings, planning meeting logistics, developing an agenda, compiling informational packets on clinical and Medicaid utilization data, distributing necessary materials, and drafting meeting minutes.

The contractor would offer experience and expertise at the onset of the preferred drug list implementation that the Department could not immediately acquire by hiring additional FTE. Further, the Department anticipates that a contractor would have the best and most current research available and would provide this data at no additional cost. The cost and time intensive nature of requiring the FTE to build a database of evidence-based research and clinical data on drugs and obtain the experience necessary would cause significant delays in implementation for every drug class added. FTE would have to perform all preliminary research prior to reviewing each drug class with the Pharmacy and Therapeutics Committee.

Drug Utilization Review Line Item

Currently, the Executive Director's Office, Drug Utilization Review line item assumes a federal match rate of 75%. During the implementation of the preferred drug list, the Department determined that drug utilization review should receive a federal match rate of 50%. Under 42 CFR 456.719, funding for the drug utilization review program, "FFP is available...for the Statewide adoption of a DUR program...for funds expended by the State after December 31, 1993, at the rate of 50 percent." As a result, the Department would require an additional \$76,036 in General Fund to offset the loss of federal funds. This would include all three programs to be paid out of the line including the new preferred drug list contractor, the drug utilization review contract with Health Information Design, Inc. and a new pharmacist incentive payment. The pharmacist incentive payment is a new appropriation to the Drug Utilization Review line beginning in FY 07-08. Calculations for this adjustment are available in Table 3 in the Calculations for Request section of this request.

Based on information from other states that have implemented preferred drug lists or joined multi-state purchasing pools, the Department estimates that it will require \$180,000 for a contractor in FY 08-09. This figure is larger than the \$100,000 contained in the Legislative Council fiscal note for SB 05-022 as that estimate did not address the ongoing cost of collecting, synthesizing, and organizing new evidence as it becomes available, nor any other duties the contractor would be required to perform to maintain a valid source of information.

The Department ended the contract with the Business Research Division of the Leeds School of Business at the University of Colorado starting in FY 07-08 and assumes that the \$180,000 in funding can be reallocated for the purpose of the preferred drug list contractor. The contract with the Business Research Division provided research services for drug utilization. Many of these same services would be required of the contractor to implement a preferred drug list in addition to providing evidence based research for clinical data which the Business Research Division was unable to provide. Rather than pay two separate drug utilization review contractors with duplicative services, this alternative would utilize the existing funding to provide a broader range of services.

Savings Estimate

The Department originally estimated savings of \$670,376 for 6 months and \$1,340,752 for 12 months from FY 03-04 pharmaceutical data for Legislative Council's May 3, 2005 fiscal note for SB 05-022. This estimate was used to calculate the appropriation received by the Department during Figure Setting for FY 06-07 (Figure Setting, February 14, 2007, page 14-15). This estimate was updated using FY 06-07 data due to legislative changes impacting pharmacy expenditures including the impact of the Medicare Modernization Act of 2003. The Department will implement 2-3 drug classes quarterly, for a total of 12 drug classes by the end of FY 08-09. Further, the savings estimate was revised to account for the staggered drug class implementation dates and inflation due to the anticipated increase in drug utilization across fiscal years. As a result, the Department estimates a total potential savings of \$2,438,677 in savings in FY 08-09; this is \$1,097,925 more than the \$1,340,752 in savings in the Medical Services Premiums from the Figure Setting, March 8,

2007, page 52. These calculations are available in Table 4 in the Calculations for Request section.

Consequences if Not Funded:

The Department would be required to use the resources appropriated in SB 07-239 to maintain the drug classes added to the preferred drug list by previous contractors. The extensive research necessary to build a clinical database of all potential drugs available for use in each drug category for a preferred drug list would prohibit the Department from adding additional drug classes without additional resources. This would decrease the efficiency of the preferred drug list and limit the potential savings available. As a result, the Department would not realize the estimated FY 08-09 cost savings of \$793,091 related to drug classes that would have been added by the contractor on October 1, 2008 and January 1, 2009; \$304,835 and \$203,223. Calculations are available in Table 5 available in the Calculations for Request section.

Calculations for Request:

Table 1: Summary of Request FY 08-09

Summary of Request FY 08-09	Total Funds	General Fund	Federal Funds
Total Request	(\$793,091)	(\$320,510)	(\$472,581)
FY 08-09 Executive Director's Office, Drug Utilization Review Request (Column 6)	\$0	\$76,036	(\$76,036)
FY 08-09 Medical Services Premiums, Estimated Drug Savings (Column 6)	(\$793,091)	(\$396,546)	(\$396,545)

Table 2: Summary of Request FY 09-10

Summary of Request FY 09-10	Total Funds	General Fund	Federal Funds
Total Request	(\$1,312,041)	(\$579,985)	(\$732,056)
FY 09-10 Executive Director's Office, Drug Utilization Review Request (Column 6)	\$0	\$76,036	(\$76,036)
FY 09-10 Medical Services Premiums, Estimated Drug Savings (Column 6)	(\$1,312,041)	(\$656,021)	(\$656,020)

Table 3: Summary of Changes to the Executive Director’s Office, Drug Utilization Review Line FY 08-09

Row	Summary of Request FY 08-09	Total Funds	General Fund	Federal Funds	Description
A	FY 07-08 Business Research Division of the University of Colorado at Boulder	\$180,000	\$45,000	\$135,000	Previous contract amount for drug utilization review services provided by the Business Research Division of the University of Colorado at Boulder
B	FY 07-08 Health Information Design Contract	\$107,193	\$26,798	\$80,395	Current Health Information Design drug utilization contract
C	FY 07-08 Pharmacist Incentive Payment	\$16,950	\$4,238	\$12,712	HB 07-1021
D	FY 07-08 Executive Director’s Office, Drug Utilization Review	\$304,143	\$76,036	\$228,107	Row A + Row B + Row C (FY 07-08 Appropriation, SB 07-239, Long Bill)
E	FY 08-09 Health Information Design Contract	\$107,193	\$53,597	\$53,596	Adjusted Health Information Design drug utilization contract
F	FY 08-09 Pharmacist Incentive Payment	\$16,950	\$8,475	\$8,475	Adjusted Federal Match Rate from HB 07-1021
G	FY 08-09 Preferred Drug List Contract	\$180,000	\$90,000	\$90,000	Requested preferred drug list contract
H	Estimated FY 08-09 Executive Director’s Office, Drug Utilization Review	\$304,143	\$152,072	\$152,071	Row E + Row F + Row G
I	FY 08-09 Summary of Changes to the Drug Utilization Review Line	\$0	\$76,036	(\$76,036)	Row H - Row D

Table 4: Medical Services Premiums, Estimated Drug Savings

Row	Item	Total Funds	Description
A	Total Drug Expenditures FY 06-07	\$190,166,972	Cash based actual expenditures for FY 06-07
B	Excluded Drug Class Expenditures FY 06-07	\$52,730,213	Cash based actual expenditures for FY 06-07
C	Estimated Drug Rebates	(\$55,000,908)	Three quarters of actual FY 06-07 rebates plus one quarter of estimated rebates
D	Total Fee-For-Service Expenditures	\$82,435,851	Row A - Row B + Row C
E	Estimated Savings	2.50%	Based on Michigan actual preferred drug list savings FY 03-04
F	Potential Savings Estimate FY 06-07	(\$2,060,896)	Row D x Row E
G	Estimated Drug Savings Inflator	8.78%	See Narrative
H	Potential Savings Estimate FY 07-08	(\$2,241,843)	Row F x (1 + Row G)
I	Potential Savings Estimate FY 08-09	(\$2,438,677)	Row H x (1 + Row G)
J	Potential Savings Estimate FY 09-10	(\$2,652,793)	Row I x (1 + Row G)

Table 5: Medical Services Premiums, Estimated Drug Savings, Drug Class Savings by Implementation Date

Row	Item	FY 07-08	FY 08-09	FY 09-10	Description
A	Savings from Drug Classes Implemented April 1, 2008	(\$186,820)	(\$812,893)	(\$884,264)	See Appendix 2
B	Savings from Drug Classes Implemented July 1, 2008	\$0	(\$812,893)	(\$884,264)	See Appendix 3
C	Savings from Drug Classes Implemented October 1, 2008	\$0	(\$304,835)	(\$442,132)	See Appendix 4
D	Savings from Drug Classes Implemented January 1, 2009	\$0	(\$203,223)	(\$442,132)	See Appendix 5
E	Total Estimated Drug Savings	(\$186,820)	(\$2,133,843)	(\$2,652,793)	Row A + Row B + Row C + Row D
F	Annualized Savings Calculated in Figure Setting	(\$670,376)	(\$1,340,752)	(\$1,340,752)	Figure Setting, February 14, 2007, page 14-15 and 12 Month Annualization
G	Additional Estimated Drug Savings	\$483,556	(\$793,091)	(\$1,312,041)	Row E - Row F

Assumptions for Calculations:

Table 3: Summary of Changes to the Executive Director's Office, Drug Utilization Review Line FY 08-09

The Department is not renewing the drug utilization review contract with the Business Research Division of the University of Colorado at Boulder beginning in FY 07-08. The total contract amount was \$180,000 for FY 07-08 and was funded with a 75% federal match rate. The Department assumes that it will use these funds to pay the preferred drug list contractor in the Executive Director's Office, Drug Utilization Review line. Based on information received from the Centers for Medicare and Medicaid Services, the Drug Utilization Review line should receive a 50% federal match rate. As a result, the new preferred drug list contract would receive a 50% federal match rate. In addition, the Department's remaining drug utilization review contract with Health Information Design, Inc. and incentive payments to pharmacists would be adjusted to receive a 50% federal match rate.

Table 4: Medical Services Premiums, Estimated Drug Savings FY 08-09

The Department originally estimated savings of \$670,376 for 6 months and \$1,260,752 for Legislative Council's May 3, 2005 fiscal note for SB 05-022. These savings were based on 12 months from the total FY 03-04 expenditures, less FY 03-04 drug rebates, less excluded drug therapeutic classes², times an estimated 2% cost savings. The estimate provided for SB 05-022 was used to calculate the appropriation received by the Department during figure setting for FY 07-08 (Figure Setting, February 14, 2007, page 14-15).

The estimate used to calculate savings for FY 08-09 was updated with FY 06-07 data as a result of legislative changes impacting pharmacy expenditures including the Medicare Modernization Act of 2003. The updated savings projection is based on total FY 06-07

² Excluded drug classes in FY 06-07 include: atypical antipsychotics, typical antipsychotics, anti-cancer, immunosuppressants, anticonvulsants, hemophilia drugs and HIV/AIDS drugs. These classes are expected to be excluded to protect the most vulnerable Medicaid populations. Both programs have a small number of drug classes and do not necessarily incorporate all of the drug classes currently being considered for the Colorado preferred drug list.

expenditures, less FY 06-07 drug rebates, less excluded drug therapeutic classes³, times an estimated 2.5% cost savings. Savings, which would be a part of the Medical Services Premiums line, are estimated based on the similarity to the program developed and implemented by Michigan. Michigan uses a state-based panel of doctors and pharmacists to determine cost effective yet clinically safe and effective drugs for their clients. It is not known whether the implementation of Colorado's program will result in the same outcomes as Michigan, so this will need to be closely monitored.

In Michigan, the impact of pooling, negotiations, and supplemental rebates on drugs resulted in a 4% budget reduction (Michigan had savings of \$42 million within its \$1 billion Medicaid pharmacy budget). Michigan is pooling with another state (Vermont) and Colorado will not be pooling with another state at this time. With other differences, Michigan uses a contracted service in their model, a pharmacy benefits administrator, and disease management programs. Therefore, the Department assumes a more conservative savings estimate of 2%.

Based on the updates and changes addressed above, the Department estimates a total potential cost savings of \$2,060,896 for FY 06-07 for 12 drug classes. Cost savings are expected to increase over time and as a result, the Department estimated an 8.78% drug savings inflator. This inflator is based on the change in monthly drug expenditures between December 2006 and June 2007. Fluctuations in expenditures due to the number of weeks in a month were adjusted using a three month moving average. The three month moving average was averaged for the seven calculated months resulting in a 0.7% average monthly percent change. Multiplying 0.7% by 12 months provides the annual estimated savings inflator of 8.78%. Applying this percentage across fiscal years, the Department estimates that the potential savings is \$2,241,843 in FY 07-08, \$2,438,677 in FY 08-09 and \$2,652,793 in FY 09-10. The Department plans a staggered implementation, adding three drug classes per quarter. As a result, the Department will not realize the potential savings estimates. Further calculations are available in Table 5 to discount the potential savings based on the implementation dates of the drug classes.

³ Excluded drug classes in FY 03-04 include: atypical antipsychotics, typical antipsychotics, anti-cancer, immunosuppressants, biologics, and HIV/AIDS drugs. These classes are expected to be excluded to protect the most vulnerable Medicaid populations.

Table 5: Medical Services Premiums, Estimated Drug Savings, Drug Class Savings by Implementation Date

This base estimate assumes that all drug classes are part of the preferred drug list as of July 1, 2008. The current implementation plan has staggered implementation dates for adding drug classes and not all drug classes will be included by July 1, 2008. As a result, savings were discounted depending on the drug class start date.

For the purposes of the savings estimate, the Department assumes that drug classes will be implemented based on the potential savings per drug class. Drug classes with the highest potential savings will be implemented before classes with lower potential savings. This assumption is based on limited drug savings information provided for Arkansas and Indiana⁴. The Department is working with the preferred drug list contractor to determine the highest potential savings by class based on utilization data for Colorado but a full list and order for the preferred drug list is not yet available. The Department estimates that two-thirds of drug savings will occur in the first six drug classes and one-third of the drug savings will occur with the implementation of the remaining six drug classes. For FY 07-08, \$2,060,896 in total potential savings is multiplied by two-thirds to obtain \$1,494,562 in drug savings for the first six drug classes. The remaining \$747,281 in potential savings comes from the remaining six drug classes.

The yearly savings estimates are divided by six for the number of drug classes and twelve for the total number of potential savings months. The Department estimates savings of \$20,758 and \$10,379 per drug class per month. These monthly savings estimates are updated by fiscal year using the 8.78% savings inflator. The per drug class per month savings estimate of was multiplied by the number of months for each drug class to obtain the total savings by fiscal year and implementation date. Totals are available in Row B through Row D. Calculations are available in Appendix 1 through Appendix 6.

⁴ The Department reviewed data provided in “Arkansas Medicaid Evidence-Based Prescription Drug Program (EBRx). Quarterly Report – First Quarter 2006” and the “Evaluation of the Indiana Medicaid Preferred Drug List (PDL) Program”, 6/30/2005.

Summing the drug savings by implementation date provides the total estimated savings by fiscal year; \$2,438,677 is the final estimated savings for FY 08-09. During Figure Setting, JBC assumed a \$670,376 six month cost savings which annualizes to \$1,340,752 in FY 08-09 (Figure Setting, February 14, 2007, page 14-15). The difference between these two estimates is \$1,097,925 in additional estimated cost savings for FY 08-09 and \$1,312,041 in additional estimated cost savings for FY 09-10.

Impact on Other Government Agencies: None.

Cost Benefit Analysis:

FY 08-09 Cost Benefit Analysis	Costs	Benefits
Request	The cost of the request includes \$76,036 General Fund to fix the Drug Utilization Review fund splits and hire a preferred drug list contractor.	The request would allow the Department to implement the preferred drug list per the Executive Order of Governor Ritter by January 1, 2008. This alternative would provide greater efficiency in implementing the drug categories and ultimately decreasing prescription drug expenditures. The Department would realize total estimated cost savings of \$793,091 in FY 08-09. This request will also fix the federal fund splits to be in compliance with federal regulation.
Consequences if not Funded	The cost of not funding the preferred drug list contractor would be delays in the implementation of the preferred drug list and a diminished cost savings due to a smaller number of drug classes. In addition, approximately \$100,000 would have to be absorbed by the Department in order to obtain the required evidence-based research necessary for the Pharmacy and Therapeutics Committee to make decisions regarding additional drug classes. This would inhibit other needed contracted services.	Under this alternative there are no additional costs associated with hiring a contractor, however the Department would experience diminished savings in Medical Services Premiums due to a smaller number of drug classes and slower implementation of new drug classes to the preferred drug list.

Implementation Schedule:

Task	Month/Year
Governor Signed Executive Order D 004 07 to Create the Preferred Drug List	January 2007
Internal Research/Planning Period	January 2007
Documented Quote Posted for the Temporary Preferred Drug List Contractor	July 2007
Preferred Drug List Committee Rules presented to the Medical Services Board and Withdrawn	July 2007
Documented Quote Bids Reviewed, Contract Negotiated and Approved	August 2007
Preferred Drug List Committee Rules represented to the Medical Services Board	September 2007
Preferred Drug List and Committee Rules Became Effective	October 2007
Committee Members Appointed by the Executive Director of the Department	October 2007
First Committee Meeting	December 2007
Preferred Drug List Contractor Began Performance of Contract	December 2007
RFP Posted for Contractor	March 2008
RFP Awarded and Signed	March 2008
First 3 Drug Classes Added to the Preferred Drug List	April 2008
RFP Bids Reviewed, Contract Negotiated and Approved	June 2008
3 Additional Drug Classes Added to the Preferred Drug List	July 2008
3 Additional Drug Classes Added to the Preferred Drug List	October 2008
3 Additional Drug Classes Added to the Preferred Drug List (for 12 Total Drug Classes)	January 2009
Evaluation of the Preferred Drug List Drug Classes and the Consideration of Additional Classes	January 2009

Statutory and Federal Authority:

25.5-5-506, C.R.S. (2007). 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.

(2) 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. The state board shall promulgate a rule that outlines a process in which any interested party may be notified of and comment on the implementation of any prior authorization for a class of prescribed drugs before the class is prior authorized.

(b) The state department shall report to the health and human services committees for the house of representatives and the senate, or any successor committees, and the joint budget committee no later than December 1, 2003, and each December 1 thereafter, on plan utilization mechanisms that have been implemented or that will be implemented by the state department, the time frames for implementation, the expected savings associated with each utilization mechanism, and any other information deemed appropriate by the health and human services committees, or any successor committees, or the joint budget committee.

42 CFR 456.719 - Funding for DUR program.

FFP is available for the sums that the Secretary determines are attributable to the Statewide adoption of a DUR program as described in the subpart, and payment is made under procedures established in part 433 of this chapter as follows:

(a) For funds expended by the State during calendar years 1991 through 1993, at the rate of 74 percent.

(b) For funds expended by the State after December 31, 1993, at the rate of 50 percent.

Performance Measures:

This Base Reduction Item affects the following Performance Measure:

- Decrease Medicaid pharmaceutical costs for therapeutic classes on the Preferred Drug List.

The Department believes that a preferred drug list will provide the high quality prescription medications required by clients. Implementing the preferred drug list program will allow the state to increase the cost efficiency for pharmaceutical purchases through manufacture agreements and supplemental rebates.

Appendix 1: FY 07-08 Baseline

Row	Item	Drug Classes 1-6	Drug Classes 7-12	Total	Description
A	Maximum Potential Savings (FY 07-08)	(\$1,494,562)	(\$747,281)	(\$2,241,843)	FY 06-07 Drug Expenditures * 2.5% * 8.78%. See Narrative
B	Savings Per Drug Class	(\$249,094)	(\$124,547)		Row A / 6
C	Savings Per Drug Class Per Month	(\$20,758)	(\$10,379)		Row B / 12

Appendix 2: Estimated Savings for Drug Classes Implemented April 1, 2008

Row		Drug Classes 1-6	Drug Classes 7-12	Total	Description
A	Number of Drug Classes Implemented	3	0		Preferred Drug List Implementation Plan
B	Savings Per Drug Class Per Month	(\$20,758)	(\$10,379)		Appendix 1, Row C
C	Effective Number of Months in Fiscal Year	3	3		Preferred Drug List Implementation Plan
D	Total Savings FY 07-08	(\$186,820)	\$0	(\$186,820)	Row A * Row B * Row C
E	Estimated Growth in Drugs			8.78%	Average Growth Rate December 2006-June 2007
F	Estimated Savings Per Drug Class Per Month (FY 08-09)	(\$22,580)	(\$11,290)		Row A * Row E
G	Effective Number of Months in Fiscal Year	12	12		Preferred Drug List Implementation Plan
H	Total Savings FY 08-09	(\$812,893)	\$0	(\$812,893)	Row A * Row F * Row G
I	Estimated Growth in Drugs			8.78%	Average Growth Rate December 2006-June 2007
J	Estimated Savings Per Drug Class Per Month (FY 09-10)	(\$24,563)	(\$12,281)		Row F * Row I
K	Effective Number of Months in Fiscal Year	12	12		Preferred Drug List Implementation Plan
L	Total Savings FY 09-10	(\$884,264)	\$0	(\$884,264)	Row A * Row J * Row K

Appendix 3: Estimated Savings for Drug Classes Implemented July 1, 2008

Row	Item	Drug Classes 1-6	Drug Classes 7-12	Total	Description
A	Number of Drug Classes Implemented	3	0		Preferred Drug List Implementation Plan
B	Estimated Growth in Drugs			8.78%	Average Growth Rate December 2006-June 2007
C	Savings Per Class Per Month (FY 08-09)	(\$18,064)	(\$9,032)		Appendix 1, Row C * Row B
D	Effective Number of Months in Fiscal Year	12	12		Preferred Drug List Implementation Plan
E	Total Savings FY 08-09	(\$650,314)	\$0	(\$650,314)	Row A * Row C * Row D
F	Estimated Growth in Drugs			8.78%	Average Growth Rate December 2006-June 2007
G	Savings Per Class Per Month (FY 09-10)	(\$19,650)	(\$9,825)		Row C * Row B
H	Effective Number of Months in Fiscal Year	12	12		Preferred Drug List Implementation Plan
I	Total Savings FY 09-10	(\$707,411)	\$0	(\$707,411)	Row A * Row G * Row H

Appendix 4: Estimated Savings for Drug Classes Implemented October 1, 2008

Row	Item	Drug Classes 1-6	Drug Classes 7-12	Total	Description
A	Number of Drug Classes Implemented	0	3		Preferred Drug List Implementation Plan
B	Estimated Growth in Drugs			8.78%	Average Growth Rate December 2006-June 2007
C	Estimated Savings Per Drug Class Per Month (FY 08-09)	(\$22,580)	(\$11,290)		Appendix 1, Row C * Row B
D	Effective Number of Months in Fiscal Year	9	9		Preferred Drug List Implementation Plan
E	Total Savings FY 08-09	\$0	(\$304,835)	(\$304,835)	Row A * Row C * Row D
F	Estimated Growth in Drugs			8.78%	Average Growth Rate December 2006-June 2007
G	Estimated Savings Per Drug Class Per Month (FY 09-10)	(\$24,563)	(\$12,281)		Row C * Row B
H	Effective Number of Months in Fiscal Year	12	12		Preferred Drug List Implementation Plan
I	Total Savings FY 09-10	\$0	(\$442,132)	(\$442,132)	Row A * Row G * Row H

Appendix 5: Estimated Savings for Drug Classes Implemented January 1, 2009

Row		Drug Classes 1-6	Drug Classes 7-12	Total	Description
A	Number of Drug Classes Implemented	0	3		Preferred Drug List Implementation Plan
B	Estimated Growth in Drugs			8.78%	Average Growth Rate December 2006-June 2007
C	Estimated Savings Per Drug Class Per Month (FY 08-09)	(\$22,580)	(\$11,290)		Appendix 1, Row C * Row B
D	Effective Number of Months in Fiscal Year	6	6		Preferred Drug List Implementation Plan
E	Total Savings FY 08-09	\$0	(\$203,223)	(\$203,223)	Row A * Row C * Row D
F	Estimated Growth in Drugs			8.78%	Average Growth Rate December 2006-June 2007
G	Estimated Savings Per Drug Class Per Month (FY 09-10)	(\$24,563)	(\$12,281)		Row C * Row B
H	Effective Number of Months in Fiscal Year	12	12		Preferred Drug List Implementation Plan
I	Total Savings FY 09-10	\$0	(\$442,132)	(\$442,132)	Row A * Row G * Row H

Appendix 6: Calculating Total Savings by Fiscal Year

Fiscal Year	Month	Drug Class												Total Savings	
		1	2	3	4	5	6	7	8	9	10	11	12		
FY 07-08	Apr-08	(\$20,758)	(\$20,758)	(\$20,758)											\$49,819
	May-08	(\$20,758)	(\$20,758)	(\$20,758)											\$49,819
	Jun-08	(\$20,758)	(\$20,758)	(\$20,758)											\$49,819
	Savings	(\$62,273)	(\$62,273)	(\$62,273)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	(\$186,820)
FY 08-09	Jul-08	(\$22,580)	(\$22,580)	(\$22,580)	(\$22,580)	(\$22,580)	(\$22,580)								\$108,386
	Aug-08	(\$22,580)	(\$22,580)	(\$22,580)	(\$22,580)	(\$22,580)	(\$22,580)								\$108,386
	Sep-08	(\$22,580)	(\$22,580)	(\$22,580)	(\$22,580)	(\$22,580)	(\$22,580)								\$108,386
	Oct-08	(\$22,580)	(\$22,580)	(\$22,580)	(\$22,580)	(\$22,580)	(\$22,580)	(\$11,290)	(\$11,290)	(\$11,290)					\$135,482
	Nov-08	(\$22,580)	(\$22,580)	(\$22,580)	(\$22,580)	(\$22,580)	(\$22,580)	(\$11,290)	(\$11,290)	(\$11,290)					\$135,482
	Dec-08	(\$22,580)	(\$22,580)	(\$22,580)	(\$22,580)	(\$22,580)	(\$22,580)	(\$11,290)	(\$11,290)	(\$11,290)					\$135,482
	Jan-09	(\$22,580)	(\$22,580)	(\$22,580)	(\$22,580)	(\$22,580)	(\$22,580)	(\$11,290)	(\$11,290)	(\$11,290)	(\$11,290)	(\$11,290)	(\$11,290)	(\$11,290)	\$162,578
	Feb-09	(\$22,580)	(\$22,580)	(\$22,580)	(\$22,580)	(\$22,580)	(\$22,580)	(\$11,290)	(\$11,290)	(\$11,290)	(\$11,290)	(\$11,290)	(\$11,290)	(\$11,290)	\$162,578
	Mar-09	(\$22,580)	(\$22,580)	(\$22,580)	(\$22,580)	(\$22,580)	(\$22,580)	(\$11,290)	(\$11,290)	(\$11,290)	(\$11,290)	(\$11,290)	(\$11,290)	(\$11,290)	\$162,578
	Apr-09	(\$22,580)	(\$22,580)	(\$22,580)	(\$22,580)	(\$22,580)	(\$22,580)	(\$11,290)	(\$11,290)	(\$11,290)	(\$11,290)	(\$11,290)	(\$11,290)	(\$11,290)	\$162,578
	May-09	(\$22,580)	(\$22,580)	(\$22,580)	(\$22,580)	(\$22,580)	(\$22,580)	(\$11,290)	(\$11,290)	(\$11,290)	(\$11,290)	(\$11,290)	(\$11,290)	(\$11,290)	\$162,578
	Jun-09	(\$22,580)	(\$22,580)	(\$22,580)	(\$22,580)	(\$22,580)	(\$22,580)	(\$11,290)	(\$11,290)	(\$11,290)	(\$11,290)	(\$11,290)	(\$11,290)	(\$11,290)	\$162,578
	Savings	(\$22,580)	(\$22,580)	(\$22,580)	(\$22,580)	(\$22,580)	(\$22,580)	(\$101,612)	(\$101,612)	(\$101,612)	(\$67,741)	(\$67,741)	(\$67,741)	(\$67,741)	(\$2,133,843)
FY 09-10	Jul-08	(\$24,563)	(\$24,563)	(\$24,563)	(\$24,563)	(\$24,563)	(\$24,563)	(\$12,281)	(\$12,281)	(\$12,281)	(\$12,281)	(\$12,281)	(\$12,281)	(\$12,281)	\$176,853
	Aug-08	(\$24,563)	(\$24,563)	(\$24,563)	(\$24,563)	(\$24,563)	(\$24,563)	(\$12,281)	(\$12,281)	(\$12,281)	(\$12,281)	(\$12,281)	(\$12,281)	(\$12,281)	\$176,853
	Sep-08	(\$24,563)	(\$24,563)	(\$24,563)	(\$24,563)	(\$24,563)	(\$24,563)	(\$12,281)	(\$12,281)	(\$12,281)	(\$12,281)	(\$12,281)	(\$12,281)	(\$12,281)	\$176,853
	Oct-08	(\$24,563)	(\$24,563)	(\$24,563)	(\$24,563)	(\$24,563)	(\$24,563)	(\$12,281)	(\$12,281)	(\$12,281)	(\$12,281)	(\$12,281)	(\$12,281)	(\$12,281)	\$176,853
	Nov-08	(\$24,563)	(\$24,563)	(\$24,563)	(\$24,563)	(\$24,563)	(\$24,563)	(\$12,281)	(\$12,281)	(\$12,281)	(\$12,281)	(\$12,281)	(\$12,281)	(\$12,281)	\$176,853
	Dec-08	(\$24,563)	(\$24,563)	(\$24,563)	(\$24,563)	(\$24,563)	(\$24,563)	(\$12,281)	(\$12,281)	(\$12,281)	(\$12,281)	(\$12,281)	(\$12,281)	(\$12,281)	\$176,853
	Jan-09	(\$24,563)	(\$24,563)	(\$24,563)	(\$24,563)	(\$24,563)	(\$24,563)	(\$12,281)	(\$12,281)	(\$12,281)	(\$12,281)	(\$12,281)	(\$12,281)	(\$12,281)	\$176,853
	Feb-09	(\$24,563)	(\$24,563)	(\$24,563)	(\$24,563)	(\$24,563)	(\$24,563)	(\$12,281)	(\$12,281)	(\$12,281)	(\$12,281)	(\$12,281)	(\$12,281)	(\$12,281)	\$176,853
	Mar-09	(\$24,563)	(\$24,563)	(\$24,563)	(\$24,563)	(\$24,563)	(\$24,563)	(\$12,281)	(\$12,281)	(\$12,281)	(\$12,281)	(\$12,281)	(\$12,281)	(\$12,281)	\$176,853
	Apr-09	(\$24,563)	(\$24,563)	(\$24,563)	(\$24,563)	(\$24,563)	(\$24,563)	(\$12,281)	(\$12,281)	(\$12,281)	(\$12,281)	(\$12,281)	(\$12,281)	(\$12,281)	\$176,853
	May-09	(\$24,563)	(\$24,563)	(\$24,563)	(\$24,563)	(\$24,563)	(\$24,563)	(\$12,281)	(\$12,281)	(\$12,281)	(\$12,281)	(\$12,281)	(\$12,281)	(\$12,281)	\$176,853
	Jun-09	(\$24,563)	(\$24,563)	(\$24,563)	(\$24,563)	(\$24,563)	(\$24,563)	(\$12,281)	(\$12,281)	(\$12,281)	(\$12,281)	(\$12,281)	(\$12,281)	(\$12,281)	\$176,853
	Savings	(\$294,755)	(\$294,755)	(\$294,755)	(\$294,755)	(\$294,755)	(\$294,755)	(\$147,377)	(\$147,377)	(\$147,377)	(\$147,377)	(\$147,377)	(\$147,377)	(\$147,377)	(\$2,652,793)