



State of California • Arnold Schwarzenegger, Governor
State and Consumer Services Agency
DEPARTMENT OF GENERAL SERVICES
Executive Office

May 2, 2006

The Honorable Wesley Chesbro, Chair
Joint Legislative Budget Committee
State Capitol, Room 5035
Sacramento, CA 95814

Dear Senator Chesbro:

Pursuant to the requirements of Welfare and Institutions Code Section 14982, the Department of General Services (DGS) is submitting the Legislative report on the procurement of prescription drugs.

In keeping with our commitment to encourage conservation, we have posted this report to our website. The report can be viewed at <http://www.legi.dgs.ca.gov/Publications/2006LegislativeReports.htm>. The report is entitled Procurement of Prescription Drugs.

If you wish to receive a printed copy of this report, please contact Greg Doe, Pharm.D., Pharmaceutical Program Consultant, Procurement Division, DGS, at (916) 375-4533.

Sincerely,

Ron Joseph
Director

cc: Legislative Report Listing (Distribution List #5 see attached)
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**Annual Report to the Legislature
on Procurement of Prescription Drugs**

April 2006

Annual Report on Procurement Prescription Drugs

INTRODUCTION

Assembly Bill (AB) 139 (Chapter 74, Statutes of 2005) was signed by Governor Schwarzenegger on July 19, 2005, requiring the Department of General Services (DGS) to report annually to the Chairperson of the Joint Legislative Budget Committee and the chairs of the Fiscal committees of the Legislature on any joint activities of the DGS, the University of California (UC) and the Public Employees Retirement System (CalPERS) in connection with procurement of prescription drugs and any resulting cost savings. This legislation also required the DGS to develop an annual work plan describing DGS' annual activities to reduce the State's costs for prescription drugs and estimate of cost savings.

JOINT ACTIVITIES OF THE DGS, UC AND CalPERS

In January 2006 the DGS entered into initial discussions with both the UC and CalPERS to explore opportunities to consolidate drug procurement or engage in other joint activities that will result in cost savings in the procurement of prescription drugs. Through initial conversations with the UC and CalPERS, it was determined that opportunities may exist to share information and improve upon:

- A formulary system;
- Drug Contracting;
- Coordinating programs offered by pharmaceutical manufacturers providing prescription drugs free or at reduced cost;
- Group Purchasing Organizations;
- Pharmacy Benefit Managers; and
- Pharmaceutical Prime Vendor.

The DGS will explore how best to work with UC and CalPERS to facilitate the sharing of information that is not prohibited by any other provision of law or contractual agreement for which the disclosure may adversely affect potential pharmaceutical drug procurement by a State agency. This group will also research best practice in drug contracting, implementing other models for purchasing prescription drugs, and identifying ways of working together. CalPERS' Pharmacy Carve-Out Study and Request for Proposal for their newly awarded Pharmacy Benefit Manager for their Self-Funded Health Plans Pharmacy Program provided during discussions will be reviewed to determine whether there are ways to consolidate and expand the Pharmacy Benefit Manager's role with the State agencies. Meetings are scheduled at least quarterly and more often when required.

Other Collaborative Effort

The DGS is currently collaborating with the UC through the California Mental Health Care Management (CalMEND) program. CalMEND is a common effort being made by a consortium of State of California publicly funded providers and purchasers of mental health services to improve upon both the quality and cost of providing mental health services to persons served by these entities. This program was developed in response to the cost of providing antipsychotic

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medications to this population. CalMEND will coordinate resources between organizations to develop clinical practice guidelines, algorithms, procedures and policies integrated with patient, family, and caregiver.

Co-chaired by the California's Department of Health Services (DHS) and Department of Mental Health (DMH), the development and implementation of CalMEND is coordinated through a policy oversight committee composed of representatives from:

- The California Institute for Mental Health (CIMH);
- Patient Advocates;
- Department of Developmental Services (DDS);
- California Department of Corrections and Rehabilitation (CDCR);
- County Mental Health Plans;
- UC (The UC System nominated six physician representatives to work on this project.);
- Regions 21 and 22 of the Veterans Integration Service Network; and
- DGS and other State, local and public agency governmental entities.

In addition, the Common Drug Formulary (CDF)¹ Committee is represented in working subcommittees of CalMEND. CalMEND's plan is to build upon the CDF committee's guideline for the selection of antipsychotic medications. This effort is expected to result in common approaches to the use of medications through implementation within participating organizations. The DGS will translate these efforts into a procurement plan for medications relating to mental health services. This procurement plan, the implementation of which is dependent upon external entities over which the DGS has no control, is expected to be operational by the beginning of Fiscal Year 2006/2007.

DGS PHARMACEUTICAL PROGRAM EFFORTS

A Pharmacy Program Consultant (PPC) position within DGS was established by Chapter 38, (SB 77) Statutes of 2005 to implement and administer the State of California Prescription Drug Bulk Purchasing Program in accordance with legislative recommendation and Government Code Sections 14977 – 14982 relating to pharmaceuticals. State institutions purchase about \$185 million through this program.

Pharmacy Advisory Board/CDF

The DGS facilitated the development of a central Pharmacy Advisory Board, which works in conjunction with the DGS to implement and administer a Statewide pharmaceutical program in response to SB 1315 (Sher, 2002), which authorizes the DGS to enter into exclusive or nonexclusive contracts on a bid or negotiated basis with pharmaceutical manufacturers, and

¹ The Common Drug Formulary (CDF) serves as a steering committee to consolidate the formularies of participating entities into one CDF system. The CDCR, DMH, DDS and California State University System participate in this program.

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implement other strategies to manage escalating prescription drug prices. The Pharmacy Advisory Board provides oversight to the CDF Committee.

Efforts of the CDF Committee include a protocol for the selection of antipsychotic medications, based largely on a review of drug efficacy literature, and guidelines for antipsychotic drugs. These guidelines, which include the information on the relative effectiveness of drugs, include the American Psychological Guidelines, the Texas Medication Algorithm Project, and the Oregon Evidence-based Practice Center Drug Class Review on Atypical Antipsychotic Drugs. This protocol is organized on the principle of developing a formulary that uses a tier system to guide the selection of a particular medication in the course of treatment. Atypical antipsychotic drugs are placed into two tiers based upon an assessment of the average daily cost to treat a patient. Drugs considered to have a lower average daily cost are placed in the first tier, with higher cost medications placed in the second tier. Drugs not assigned to a tier are considered non-formulary. Physicians are guided to prescribe from the first tier drugs before moving to the more costly second tier drugs. Absent appropriate clinical exceptions, and for a new patient who does not have a history of adverse effects, physicians are expected to use this protocol for prescribing atypical antipsychotic medications, when the use of such medications is indicated by the patient's symptoms. The DGS successfully reached agreements for the inclusion of all atypical antipsychotic drugs for placement into the first tier, and continues to look to the negotiation process to improve pricing.

Other efforts of the CDF Committee include a protocol for the use of Angiotensin Converting Enzyme Inhibitors, Divalproex Sodium and Gabapentin Guidelines. The CDF Committee and the DGS are developing a process to conduct therapeutic category reviews for prescription drugs, which involves procurement planning and strategy. This process will identify and evaluate drug information relating to relative effectiveness of prescription drugs developed by independent associations. Processes are scheduled to be completed with reviews to begin by June 14, 2006. Outcomes of these reviews should result in appropriate use of prescription drugs and reduced costs to the State. The CDF is published on the internet at www.pd.dgs.ca.gov.

Using Current Contracting Methods

The DGS currently contracts for pricing on prescription drugs for the bulk purchasing program through negotiations with pharmaceutical manufacturers, the Invitation for Bid (IFB) process, and a Group Purchasing Organization (GPO) accessed through the Massachusetts Alliance for State Purchasing. These purchasing programs will be continued, and others, offering cost savings to the State, will be explored.

Strategically Sourced Contracts

Strategic Sourcing is a process designed to allow the State of California to purchase the best products and best services for the best value. Using this purchasing approach, the buyer analyzes what is being purchased, what the market conditions are and, who can supply those goods or

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services. The buyer then uses that information plus innovative contracting techniques to find the best values available in the marketplace.

The DGS strategically sourced a contract for proprietary prescription drugs used by State institutions to treat Hepatitis C that went into effect on April 1, 2005. Savings from the Hepatitis C contract saved approximately \$500,000 from April 2005 to October 2005. This savings information is the most current information reported to the DGS by the Strategic Sourcing process.

The State recently concluded a strategically sourced procurement that resulted in a Prime Vendor contract being awarded to AmerisourceBergen Drug Corporation (ABC) effective March 1, 2006. The new PV contract preserves discounts that were negotiated by the DGS with pharmaceutical manufacturers and is projected to save the State \$1.4 million per year through improved discounts and rebates. The pricing established by the pharmaceutical contract is available through the State's pharmaceutical Prime Vendor (PV). This contract has the following advantages over the previous Prime Vendor contract:

- Each pharmacy will receive a wireless handheld iScan™ device for ordering, receipt, and inventory;
- Return of outdated prescription drugs;
- Many non-contract drugs will be sold at wholesale acquisition cost (WAC) less 1.2 percent the previous contract was at the WAC rate;
- No administrative fee charged by vendor, previous contract charged a 0.05 percent service fee; and
- Prompt payment discount of 2.5 percent if payment is postmarked within 20 days.

The DGS strategically sourced and awarded a Pharmaceutical Benefits Manager (PBM) Contract enabling the CDCR's parolee pharmaceutical dispensing program to cover the dispensing of mental health medications which are required as a condition of parole. The DGS is working with the CDCR's Division of Adult Parole Operation to implement this contract. Prior to this contract, the CDCR purchased these medications through a contract with Rite Aid. The new PBM contract is estimated to save the State \$3.9 million on the purchase of prescription drugs.

FUTURE PLANS

The DGS will work through the Pharmacy Advisory Board and CDF Committee and Pharmacy Advisory Board to increase the participation of other state entities and explore options of increasing value-based purchasing. Such purchasing will require the coordination of resources between organizations and other State entities to develop or adopt clinical practice guidelines, algorithms, procedures, and policies.

Attachment I contains the work plan that the DGS believes will enable continued savings in its prescription drug procurements.

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Attachment I

DGS Work Plan 2006 - 2007		
Activity	Goals	Estimated Annual Savings
DGS, UC, and CalPERS ongoing discussions	<p>Generate a plan for cost savings through the procurement of prescription drugs. Options to explore may include:</p> <ul style="list-style-type: none"> • GPO; • PBM; • Pharmaceutical Prime Vendor (PV); • Consolidated pharmaceutical contracting; • Developing guidelines and protocols for the use of medications; and • Coordinating programs offered by pharmaceutical manufacturers and providing prescription drugs free or at reduced costs. 	Undetermined
Pharmaceutical PV contracting	<p>Identify and develop pricing options which may be available through pharmaceutical PVs.</p> <p>Develop reporting procedures necessary to support pharmaceutical contracting and a CDF system in the organizations participating in the DGS Pharmaceutical Bulk Purchasing Program.</p>	The strategically sourced PV contract with ABC is projected to save the State \$1.4 million per year.
CDF	<p>Increase participation of other State entities in the CDF.</p> <p>Identify options of increasing value based purchasing by coordinating resources between organizations to:</p> <ul style="list-style-type: none"> • Develop clinical practice guidelines & algorithms; • Adopt guidelines, policies and procedures which are recognized as a standard of care; • Procedures and policies integrated with patient, family and caregiver; and <p>Develop an implementation plan for the CDF within participating organizations.</p>	Undetermined
Pharmaceutical IFB	Develop and release the biannual IFB to establish contract with pharmaceutical manufacturers of single-source and multi-source drugs.	Undetermined
Direct negotiation with pharmaceutical manufacturers	Contract with pharmaceutical manufacturers of drugs for which the CDF has developed or adapted guidelines, protocols, and algorithms; or has performed a therapeutic category review.	<p>The Atypical Antipsychotic Drug contracts are currently under negotiation.</p> <p>Hepatitis C contracts approximate savings of \$500,000 from April to October 2005</p>
Evaluation of GPO contract with the Massachusetts Alliance for State Pharmaceutical Purchasing	Identify the best value to the State based on cost and volume of drugs used.	Undetermined
Expand the State's pharmaceutical bulk purchasing program	Determine the feasibility and appropriateness of including in the bulk purchasing program other State, district, county, city, municipal or public agency governmental entities, and other entities in the private sector, including employers, providers, individual consumers, and the uninsured.	Undetermined
Parole PBM contract	Implementation	Annual estimated savings of \$3.9 million
Pharmacy Advisory Board regular meetings	<p>Coordinate the activities of the Pharmacy Advisory Board, the CDF, and other State efforts to improve use and reduce costs of pharmaceuticals.</p> <p>Identify areas to improve the Statewide pharmaceutical program.</p>	Undetermined
Importation of Drugs	Determine the feasibility of importation of drugs from foreign sources.	Undetermined