Schedule 6
Change Request for FY 04-05

Department:	Health Care Policy and Financing	**Dept. Approval by:**	Lisa Esgar	**Date:**	January 3, 2005
Priority Number:	S-10	**OSPB Approval:**		**Date:**	
Program:	Rates Section	**Statutory Citation:**	26-4-116, C.R.S. (2004); 26-4-408 (1),(1.5), (3)(a), C.R.S. (2004)		
Request Title:	Drug Utilization Review Fund Split Correction				

	Fund	1 Prior-Year Actual FY 03-04	2 Appropriation FY 04-05	3 Supplemental Request FY 04-05	4 Total Revised Request FY 04-05	5 Base Request FY 05-06	6 Decision/ Base Reduction FY 05-06	7 November 1 Request FY 05-06	8 Budget Amendment FY 05-06	9 Total Revised Request FY 05-06	10 Change from Base in Out Year FY 06-07
Total of All Line Items	**Total**	72,000	913,025	(265,000)	648,025	913,025	(265,000)	648,025	0	648,025	(265,000)
	FTE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	GF	18,000	228,256	0	228,256	228,256	0	228,256	0	228,256	0
	GFE	0	0	0	0	0	0	0	0	0	0
	CF	0	0	0	0	0	0	0	0	0	0
	CFE	0	0	0	0	0	0	0	0	0	0
	FF	54,000	684,769	(265,000)	419,769	684,769	(265,000)	419,769	0	419,769	(265,000)
(1) Executive Director's Office Drug Utilization Review	**Total**	72,000	913,025	(265,000)	648,025	913,025	(265,000)	648,025	0	648,025	(265,000)
	FTE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	GF	18,000	228,256	0	228,256	228,256	0	228,256	0	228,256	0
	GFE	0	0	0	0	0	0	0	0	0	0
	CF	0	0	0	0	0	0	0	0	0	0
	CFE	0	0	0	0	0	0	0	0	0	0
	FF	54,000	684,769	(265,000)	419,769	684,769	(265,000)	419,769	0	419,769	(265,000)

Letter Notation:
Cash Fund name/number, Federal Fund Grant name: FF: Title XIX
IT Request: ☐ **Yes** ☑ **No** (If yes and request includes more than 500 programming hours, attach IT Project Plan)
Request Affects Other Departments: ☐ **Yes** ☑ **No** (If Yes, List Other Departments Here:)

CHANGE REQUEST for FY 04-05
EFFICIENCY AND EFFECTIVENESS ANALYSIS

SELECT ONE:

☐ Decision Item
☐ Base Reduction Item
☑ Supplemental Request — Criterion: New Data
☐ Budget Request Amendment — Criterion:

Priority Number:	S-10
Change Request Title:	Drug Utilization Review Fund Split Correction
Long Bill Line Item(s)	(1) Executive Director's Office, Drug Utilization Review
State and Federal Statutory Authority:	26-4-116, C.R.S. (2004); 26-4-408 (1), (1.5), (3) (a), C.R.S. (2004); 42 CFR 456.700

Summary of Request (Alternative A): This Change Request revises the federal match and describes current use of funding for Medicaid Drug Utilization Review. Federal funds are reduced by $265,000 in the Request Year and into out years. This Supplemental Request for FY 04-05 corresponds to Change Request #BRI-2 submitted November 1, 2004 for FY 05-06.

Alternative A {Recommended alternative}:

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

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

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

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

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

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

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

General Description of Alternative:

This request is to revise the federal match in FY 04-05 so that some funding in the Drug Utilization Review line item could be paid to the fiscal agent for pharmacy prior authorizations. A corresponding Change Request (#BRI-2) for FY 05-06 was submitted on November 1, 2004.

Through competitive bidding, the Department has procured services for programs on drug utilization review, education, and evaluation programs with Health Information Designs, Inc. that are less costly than anticipated. Available funds were identified to expand the prescription prior authorization program, which would be accelerated to

begin in FY 04-05. SB 03-011 and SB 03-294 initiated this pharmacy utilization program. Because there are savings due to lower contract cost, the Department requests an adjustment to a portion of the appropriation to fund additional reviews at 50% federal financial participation.

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

Implementation Schedule: Additional prior authorization reviews would commence after contract negotiation with the contractor.

Calculations for Alternative's Funding:

Summary of Request FY 04-05 Matches Schedule 6 and Recommended Request	**Total Funds**	**General Fund**	**Federal Funds**
Total Revised Request (Column 4)	$648,025	$228,256	$419,769
Supplemental Request (Column 3)	($265,000)	$0	($265,000)
Appropriation FY 04-05 (Column 2)	$913,025	$228,256	$684,769

Table 2				
	FY 04-05 Revised Uses of Appropriation	**Total Funds**	**General Fund**	**Federal Funds**
1	FY 04-05 Appropriation including:	$913,025	$228,256	$684,769
2	Drug Utilization Review research on other state programs, drug treatment therapies, cost comparisons of various therapies, determining appropriate pricing and uses of dispense as written codes and educational topics. Lessons learned would provide additional information for developing new programs, better criteria, improving claims submission information, and other emergent drug utilization review programs. The federal financial participation is 75%.	$383,025	$95,756	$287,269
3	Remainder	$530,000	$132,500	$397,500
4	Additional prior authorization reviews needed for Phase III of the Pharmacy programs implemented in SB 03-011 and SB 03-294. Program would use the General Fund available in the program at a 50% federal financial participation.	$265,000	$132,500	$132,500
5	Difference	($265,000)	$0	($265,000)
6	Total FY 04-05 Supplemental Request	$648,025	$228,256	$419,769

Impact on Other Areas of Government: None

Assumptions for Calculations: The same impact and contracting assumptions from the November 1, 2004 Change Request #BRI-2 are used. A full year of anticipated Drug Utilization Review contracts would total $383,025 (see line 2, Table #2 above). The FY 04-05 appropriation is $913,025. Therefore, the remaining amount available for prior authorizations is the difference between the two numbers ($913,025 less $383,025 equals $530,000). These funds, however, are appropriated at a 75% federal funding participation rate. The General Fund portion of the $530,000 is $132,500 (25% of $530,000). This remaining General Fund available would be matched with federal funds at a 50% federal participation rate. This totals $265,000 for prior authorization reviews ($132,500 + $132,500 = $265,000). The remaining $265,000 that is not needed is all federal funds.

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

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

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

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

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

Supporting Documentation

Analytical Technique: Cost/Benefit Analysis

	Alternative A	**Alternative B**
Cost	$132,500 General Fund	$0
Benefit	An estimated 20,883 prior authorization reviews at the current $12.69 per review would be available to the Pharmacy program ($265,000 total funds divided by $12.69 equals 20,883).	None
Benefit	Prescription drugs with high cost, high usage or both are candidates for prior authorization reviews. Prior authorizations may save between 10% and 20% on the costs of prescription medications being reviewed. The Department has identified several potential candidates, one of which costs the Department approximately $4,000,000 per year. At the lower, more conservative 10% savings, this is an estimated $400,000 per year.	None

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

Quantitative Evaluation of Performance - Compare all Alternatives:

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

Statutory and Federal Authority:

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

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

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

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

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

Department Objectives Met if Approved:

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

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