

STATE OF COLORADO FY 2010-11 BUDGET REQUEST CYCLE: DEPARTMENT OF HEALTH CARE POLICY AND FINANCING

Schedule 13											
Change Request for FY 2010-11 Budget Request Cycle											
Decision Item FY 2010-11		Base Reduction Item FY 2010-11			Supplemental FY 2009-10			Budget Amendment FY 2010-11			
Request Title:	Expansion of State Maximum Allowable Cost Pharmacy Rate Methodology										
Department:	Health Care Policy and Financing			Dept. Approval by:	John Bartholomew JB			Date:	November 2, 2009 10/15/09		
Priority Number:	BRI-3			OSPB Approval:	[Signature]			Date:	11/2/09		
		1	2	3	4	5	6	7	8	9	10
	Prior-Year			Supplemental	Total	Base	Decision/	November 1	Budget	Total	Change
	Actual	Appropriation	Request	Request	Request	Request	Base	Request	Amendment	Revised	from Base
	Fund	FY 2008-09	FY 2009-10	FY 2009-10	FY 2009-10	FY 2010-11	FY 2010-11	FY 2010-11	FY 2010-11	FY 2010-11	FY 2011-12
Total of All Line Items	Total	2,549,191,991	2,570,375,031	0	2,570,375,031	3,037,796,069	(960,682)	3,036,835,387	0	3,036,835,387	(2,114,900)
	FTE	0.0	0	0.0	0	0	0.0	0	0.0	0	0.0
	GF	925,009,869	778,379,666	0	778,379,666	1,146,816,761	(443,253)	1,146,373,508	0	1,146,373,508	(1,057,450)
	GFE	39,251,792	0	0	0	0	0	0	0	0	0
	CF	110,173,657	169,985,067	0	169,985,067	355,038,464	0	355,038,464	0	355,038,464	0
	CFE/RF	2,731,396	2,839,847	0	2,839,847	2,836,488	0	2,836,488	0	2,836,488	0
	FF	1,472,025,277	1,619,170,451	0	1,619,170,451	1,533,104,356	(517,429)	1,532,586,927	0	1,532,586,927	(1,057,450)
(1) Executive Director's Office; (C) Information Technology Contracts and Projects, Information Technology Contracts	Total	22,200,548	27,451,189	0	27,451,189	36,883,007	96,768	36,979,775	0	36,979,775	0
	FTE	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	GF	5,299,911	6,006,676	0	6,006,676	6,205,903	24,192	6,230,095	0	6,230,095	0
	GFE	0	0	0	0	0	0	0	0	0	0
	CF	540,118	1,176,844	0	1,176,844	2,488,901	0	2,488,901	0	2,488,901	0
	CFE/RF	100,328	100,328	0	100,328	100,328	0	100,328	0	100,328	0
	FF	16,260,191	20,167,341	0	20,167,341	28,087,875	72,576	28,160,451	0	28,160,451	0
(2) Medical Services Premiums	Total	2,526,991,443	2,542,923,842	0	2,542,923,842	3,000,913,062	(1,057,450)	2,999,855,612	0	2,999,855,612	(2,114,900)
	FTE	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	GF	919,709,958	1,037,363,033	0	1,037,363,033	1,140,610,858	(528,725)	1,140,082,133	0	1,140,082,133	(1,057,450)
	GFE	39,251,792	0	0	0	0	0	0	0	0	0
	CF	109,633,539	226,708,414	0	226,708,414	352,549,563	0	352,549,563	0	352,549,563	0
	CFE/RF	2,631,068	2,739,519	0	2,739,519	2,736,160	0	2,736,160	0	2,736,160	0
	FF	1,455,765,086	1,276,112,876	0	1,276,112,876	1,505,016,481	(528,725)	1,504,487,756	0	1,504,487,756	(1,057,450)

STATE OF COLORADO FY 2010-11 BUDGET REQUEST CYCLE: DEPARTMENT OF HEALTH CARE POLICY AND FINANCING

Schedule 13												
Change Request for FY 2010-11 Budget Request Cycle												
Decision Item FY 2010-11 <input type="checkbox"/>		Base Reduction Item FY 2010-11 <input checked="" type="checkbox"/>			Supplemental FY 2009-10 <input type="checkbox"/>			Budget Amendment FY 2010-11 <input type="checkbox"/>				
Request Title:		Expansion of State Maximum Allowable Cost Pharmacy Rate Methodology										
Department:		Health Care Policy and Financing			Dept. Approval by:			John Bartholomew		Date:		November 2, 2009
Priority Number:		BRI-3			OSPB Approval:					Date:		
		1	2	3	4	5	6	7	8	9	10	
		Prior-Year		Supplemental	Total	Base	Decision/	November 1	Budget	Total	Change	
		Actual	Appropriation	Request	Revised	Request	Base	Request	Amendment	Revised	from Base	
	Fund	FY 2008-09	FY 2009-10	FY 2009-10	FY 2009-10	FY 2010-11	FY 2010-11	FY 2010-11	FY 2010-11	FY 2010-11	(Column 5) FY 2011-12	
(2) Medical Services												
Premiums; Long Bill Group		Total	0	0	0	0	0	0	0	0	0	
Total		FTE	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
		GF	0	(264,990,043)	0	(264,990,043)	0	61,280	61,280	0	61,280	
		GFE	0	0	0	0	0	0	0	0	0	
		CF	0	(57,900,191)	0	(57,900,191)	0	0	0	0	0	
		CFE/RF	0	0	0	0	0	0	0	0	0	
		FF	0	322,890,234	0	322,890,234	0	(61,280)	(61,280)	0	(61,280)	
Non-Line Item Request:		None.										
Lettermote Revised Text:		None.										
Cash or Federal Fund Name and COFRS Fund Number:				FF: Title XIX								
Reappropriated Funds Source, by Department and Line Item Name:					None.							
Approval by OIT?		Yes: <input type="checkbox"/> No: <input type="checkbox"/>		N/A: <input checked="" type="checkbox"/>								
Schedule 13s from Affected Departments:			None.									

CHANGE REQUEST for FY 2010-11 BUDGET REQUEST CYCLE

Department:	Health Care Policy and Financing
Priority Number:	BRI – 3
Change Request Title:	Expansion of State Maximum Allowable Cost Pharmacy Rate Methodology

SELECT ONE (click on box):

- Decision Item FY 2010-11
- Base Reduction Item FY 2010-11
- Supplemental Request FY 2009-10
- Budget Request Amendment FY 2010-11

SELECT ONE (click on box):

Supplemental or Budget Request Amendment Criterion:

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

Short Summary of Request:

The Department of Health Care Policy and Financing requests a reduction of \$960,682 total funds, \$443,253 General Fund, for FY 2010-11. The reduction in FY 2011-12 would be \$2,114,900 total funds and \$1,057,450 General Fund. The request reduces total funds by \$1,057,450 in (2) Medical Services Premiums in FY 2010-11 as a result of an expansion of the State Maximum Allowable Cost reimbursement rate for pharmacy claims by including more drugs in the State Maximum Allowable Cost methodology. A portion of the savings created through expansion of this program would be used to perform necessary one-time changes to the Medicaid Management Information System. Therefore, this request also includes one-time funding in FY 2010-11 of \$96,768 for (1) Executive Director's Office; (C) Information Technology Contracts and Projects, Information Technology Contracts.

Background and Appropriation History: **Pharmacy Benefits Program**

The Department's Pharmacy Benefits program incurs a substantial portion of the Department's expenditures through the Acute Care service category in Medical Services Premiums. In FY 2008-09 the Department reimbursed providers \$233,666,309 for the provision of prescription drugs, although manufacturer rebates brought the net expenditure on prescription drugs to \$141,848,205. This latter amount accounted for about 9.4% of total Acute Care expenditures, and 5.7% of total expenditures incurred through the Department's Medicaid program, (November 2, 2009 FY 2010-11 Budget Request, Exhibits for Medical Services Premiums, Exhibit N, Page EN-1).

Title XIX of the Social Security Act details provisions regulating the reimbursement of covered outpatient drugs by state Medicaid agencies. For a state to provide payment for these drugs, the manufacturer of a given drug must have a rebate agreement in effect with the state whereby a portion of the state's reimbursement is given back to the state by the manufacturers. In the Colorado Pharmacy Benefits program rebates received by the State were equal to 39.3% of the costs incurred in the reimbursement of pharmacies in FY 2007-08 (November 2, 2009 FY 2010-11 Budget Request, Exhibits for Medical Services Premiums, Exhibit N, Page EN-1).

The Department currently determines reimbursement rates based on the lowest rate as determined by four methodologies. This allows the Department to maximize the cost-effectiveness of the program while maintaining client access to prescription drugs. The four methodologies used are the Federal Upper Limit, Average Wholesale Price, Direct Price, and Usual and Customary Charge. The State Maximum Allowable Cost methodology was approved by the Joint Budget Committee on March 19, 2009 as part of the Department's Base Reduction Item #1 "Pharmacy Technical and Pricing Efficiencies" that was submitted as part of the Department's FY 2009-10 Budget Request, submitted November 3, 2008. The State Maximum Allowable Cost methodology is currently in the initial implementation stage. With the implementation of the State Maximum Allowable Cost methodology, the Department will determine reimbursement rates based on the lowest price obtained through the five methodologies. In FY 2008-09, the Department

reimbursed approximately 54% of all pharmacy claims using the Average Wholesale Price, 26% using the Federal Upper Limit, 19% using the Usual and Customary Pharmacy Charge, and approximately 0.5% using the Direct Price methodology.

Pricing Methodologies Overview

In 1987 the federal Centers for Medicare and Medicaid Services (CMS) implemented regulations limiting the amount state Medicaid agencies could reimburse pharmacies that dispensed prescription drugs to Medicaid clients. Known as the Federal Upper Limit, the regulations were designed to incorporate market prices into Medicaid pharmaceutical reimbursement rates. The Federal Upper Limit is instrumental in the determination of overall pharmacy reimbursements made by the Department. In addition to being used as a chosen reimbursement rate for 26% of all transactions, the Federal Upper Limit also determines the overall maximum amount of federal funds that will be available to the state.

The three other methodologies currently used by the Department to determine reimbursements are Average Wholesale Price, Direct Price, and Usual and Customary Charge. The Average Wholesale Price methodology is calculated on a national basis as the average price at which wholesalers of prescription drugs sell to pharmacies, and is adjusted downward before use by the Department by 14% for brand name drugs and 40% for generic drugs to arrive at a final reimbursement amount. For rural pharmacies with typically higher than average operating and acquisition costs, this reimbursement is calculated as Average Wholesale Price minus 12% for all drugs. The Direct Price methodology represents a manufacturer's published catalog or list price for a drug product to non-wholesalers. The Usual and Customary Charge methodology is defined as the prevailing price charged by a pharmacy to final consumers of a drug.

Recently, a settlement was reached in a lawsuit against First Data Bank related to reimbursement calculations on specific drug packaging types through specific manufacturers. The lawsuit contended that data integrity issues related to a specific set of information affected the outcomes calculated using the Average Wholesale Pricing method. As part of the settlement, the mark-up factor utilized in the Average Wholesale

Pricing methodology will be reduced for those prescription drugs identified in the legal complaint. The agreement comes into force September 26, 2009.

Deficit Reduction Act of 2005

In February 2006, President Bush signed into law the Deficit Reduction Act, which contains provisions for the reduction of overall federal funds in State Medicaid programs. One highly relevant provision of the Deficit Reduction Act revises the Federal Upper Limit calculation with the result that it will be defined as 250% of the Average Manufacturer's Price. The Average Manufacturer's Price is distinct from the Average Wholesale Price in that the Average Manufacturer's Price is calculated as the average price paid to manufacturers by wholesalers. The Average Wholesale Price is the average price at which wholesalers of prescription drugs sell to pharmacies. Each step in the transaction chain from production to consumption adds value to the good in question. Therefore, the Federal Upper Limit is expected to decrease in the aggregate by movement towards the point of production, explaining the reduction in overall federal funds.

Full implementation of the Deficit Reduction Act requires the Federal Upper Limit to be calculated as 250% of the lowest Average Manufacturer Price for a drug unless the lowest price is 40% less than the next lowest price, in which case the next lowest price is used. Also, the Federal Upper Limit is calculated only for drugs that have two generic equivalents available in the marketplace whereas previously three generic equivalents were the standard. This change increases the number of drugs that have a Federal Upper Limit payment. Finally, since the Federal Upper Limit is based off of the Average Manufacturer Price, which is submitted monthly by manufacturers to CMS, the Federal Upper Limit changes monthly. As the Federal Upper Limit is currently based on the Average Wholesale Price, this represents an increase in the number of times each year that the calculation is changed, and reimbursement to pharmacies could fluctuate monthly.

Although disputes have arisen challenging the constitutionality of the Deficit Reduction Act of 2005, delaying its implementation indefinitely, full implementation could have several negative consequences for both pharmacies and the state. If the Deficit Reduction

Act is implemented, pharmacies could be reimbursed less or more than their acquisition cost on particular drugs at a particular time. Fluctuations in reimbursement rates caused by monthly adjustments and other uncertainties could occur should the Act eventually be implemented. Under federal law, the Department has to ensure that the payments through a State Maximum Allowable Cost methodology do not exceed that which would have been paid using the Federal Upper Limit in the aggregate. Historically, states using a State Maximum Allowable Cost methodology have realized cost savings. These states also plan to rely on this reimbursement methodology to control fluctuations in the new Federal Upper Limit.

State Maximum Allowable Cost Reimbursement History

In FY 2008-09 the Department reimbursed pharmacy providers a total of \$233,666,309 (November 2, 2009 FY 2010-11 Budget Request, Exhibits for Medical Services Premiums, Exhibit N, Page EN-1) for the provision of prescription drugs to Medicaid clients. Subtracting manufacturer rebates brings total expenditures to \$141,848,205.

The Department submitted and received approval for implementation of a State Maximum Allowable Cost reimbursement methodology as part of its Base Reduction Item #1 “Pharmacy Technical and Pricing Efficiencies” in 2008 and included as part of the Long Bill (SB 09-259). Approval of the initial implementation resulted in a decrease of \$285,123 total funds to the Department’s FY 2009-10 Medical Services Premiums appropriation line item for the inclusion of 97 drugs in the State Maximum Allowable Cost methodology. Due to the relatively small number of drugs to be included in this new pricing methodology, the Department believed that processing the pricing under the State Maximum Allowable Cost methodology could be done manually, without any systems changes. Implementation is currently in the development phase and the Department believes that the program can be expanded in FY 2010-11 to generate greater savings.

Last year’s legislative approval of a State Maximum Allowable Cost rate methodology provided the Department with a mechanism to control fluctuations in reimbursements to pharmacies. This helps mitigate risks associated with eventual implementation of the

Deficit Reduction Act where reimbursement to pharmacies may not align with their acquisition costs for certain drugs. Although the frequent updates in the Federal Upper Limit were designed to reflect changing pharmacy acquisition costs, they may not have the intended effect. Gathering the data necessary to publish the Federal Upper Limit on a national level is time-consuming. CMS established a schedule whereby there would be a three month lag between collecting the information and publishing the new Federal Upper Limits. By the time Colorado would have access to this information, pharmacy acquisition costs may have changed substantially above or below the lagging Federal Upper Limit. This has caused concern among the pharmacy community that they may be reimbursed below their acquisition cost at times.

General Description of Request:

The Department of Health Care Policy and Financing requests a reduction of \$960,682 total funds, \$443,253 General Fund, for FY 2010-11. The annualized reduction in FY 2011-12 would be \$2,114,900 total funds and \$1,057,450 General Fund. The request reduces total funds by \$1,057,450 in (2) Medical Services Premiums in FY 2010-11 as a result of an expansion of the State Maximum Allowable Cost reimbursement rate for pharmacy claims by including more drugs in the State Maximum Allowable Cost methodology. A portion of the savings created through expansion of this program would be used to perform necessary one-time changes to the Medicaid Management Information System. Therefore, this request also includes one-time funding in FY 2010-11 of \$96,768 for (1) Executive Director's Office; (C) Information Technology Contracts and Projects, Information Technology Contracts.

Under an expansion the Department would include additional drugs in the pool priced using the State Maximum Allowable Cost methodology. This would allow the Department to take advantage of an approved reimbursement methodology, increasing opportunities for reimbursement savings associated with pharmacy claims. The State Maximum Allowable Cost methodology prices drugs at the average pharmacy acquisition cost plus an 18% markup.

The expansion would require changes to the Medicaid Management Information System interface and screens at a total cost of \$96,768. The interface change is necessary to allow

data to be passed to the Medicaid Management Information System from the Department or vendor. These changes would enable the automated transfer of an increased number of State Maximum Allowable Cost eligible drugs for download into the system. Under the Department's original proposal for the inclusion of 97 drugs, the State Maximum Allowable Cost data could be processed manually with existing resources. However, with the addition of approximately 204 more drugs to the State Maximum Allowable Cost methodology, the Department would require additional FTE or changes to the Medicaid Management Information System. The automation of this process will effectively eliminate the need for additional FTE to manually process the additional data generated. The screen changes are needed to allow for coding enhancements that will help the Medicaid Management Information System distinguish pricing through State Maximum Allowable Cost from other methods already coded into the system. This will involve the addition of screen options adding the State Maximum Allowable Cost method as one of five alternatives for reimbursement. Also, behind-the-scenes coding changes will differentiate the information entered under this methodology so it will bill and track properly.

Determination of whether to include a given drug in the pool priced using the State Maximum Allowable Cost methodology will necessarily take into consideration the following:

- Availability of manufacturers;
- Broad wholesale price range;
- Cost of the drugs to retailers;
- Volume of Medicaid client utilization; and
- Bioequivalence or interchangeability of potential generic substitutes for brand name drugs.

All five elements consider the best interests and needs of the client and the State. The first two elements consider the degree of competition between various manufacturers for a single product and the range of wholesale pricing available among the manufacturers of

the drug. The third and fourth elements consider the impacts to the retailer. These elements address whether the retailers can obtain drugs and not incur significant financial losses. These elements also consider the volume as it impacts retailer profitability as well. The last element enables the retailer the ability to work collaboratively with the client when a generic equivalent is available. This element also addresses the requirement that any potential substitute for a given drug must be equivalent in effect and usage if it is to be incorporated into the calculation of the maximum allowable ingredient cost that is the basis for the State Maximum Allowable Cost.

An expansion of the State Maximum Allowable Cost methodology would provide several benefits:

- The Department would expect to see an annual reduction in expenses to its Medical Services Premiums line of \$2,114,900;
- Flexibility in the determination of reimbursements for a greater number of prescription drugs;
- Ability to adjust the rates for a greater number of drugs in a more timely manner than is possible under the current Federal Upper Limit; and,
- Allow the Department to set rates for a larger number of drugs that have not been given a Federal Upper Limit.

Consequences if Not Funded:

If this request is not approved the Department would not realize net General Fund savings of \$443,253 in FY 2010-11 and \$1,057,450 in FY 2011-12. Not expanding the capability of the Medicaid Management Information System will inhibit the Department’s ability to benefit from pricing efficiencies possible within the State Maximum Allowable Cost reimbursement methodology.

Calculations for Request:

Summary of Request FY 2010-11	Total Funds	General Fund	Federal Funds
Total Request	(\$960,682)	(\$443,253)	(\$517,429)

STATE OF COLORADO FY 2010-11 BUDGET REQUEST CYCLE: DEPARTMENT OF HEALTH CARE POLICY AND FINANCING

(1) Executive Director's Office; (C) Information Technology Contracts and Projects, Information Technology Contracts	\$96,768	\$24,192	\$72,576
(2) Medical Services Premiums	(\$1,057,450)	(\$528,725)	(\$528,725)
(2) Medical Services Premiums - ARRA Adjustment	\$0	\$61,280	(\$61,280)

Summary of Request FY 2011-12	Total Funds	General Fund	Federal Funds
Total Request	(\$2,114,900)	(\$1,057,450)	(\$1,057,450)
(2) Medical Services Premiums	(\$2,114,900)	(\$1,057,450)	(\$1,057,450)

Table 1A: Potential Maximum Savings due to State Maximum Allowable Cost Pricing Expansion for Drugs with Annual Expenditures Greater than or Equal to \$100,000			
Row	Item	Amount	Description
A	Estimated Annual Expenditures Using Existing Methodologies (excludes State Maximum Allowable Cost methodology)	\$5,783,965	Total expenditures for drugs, adjusted for known changes in reimbursement formulas and First Data Bank settlement (see Narrative).
B	Estimated Expenditures using State Maximum Allowable Cost methodology	\$2,891,862	Total estimated expenditures for drugs if utilizing highest known State Maximum Allowable Cost rate (see Narrative).
C	Maximum Potential Savings	\$2,892,103	Total potential savings if all drugs are determined to be suitable for inclusion in the State Maximum Allowable Cost methodology. Row A - Row B
D	Number of Drugs with Estimated Annual Expenditures greater than or equal to \$100,000	18	The number of individual drugs within the set for which estimated expenditures above have been compiled.
E	Average Savings per Drug	\$160,672	Estimated Average Savings per drug within the set. Row C / Row D

Table 1B: Potential Maximum Savings due to State Maximum Allowable Cost Pricing Expansion for Drugs with Annual Expenditures from \$50,000 to \$99,999			
Row	Item	Amount	Description
A	Estimated Annual Expenditures Using Existing Methodologies (excludes State Maximum Allowable Cost methodology)	\$1,558,009	Total expenditures for drugs, adjusted for known changes in reimbursement formulas and First Data Bank settlement (see Narrative).
B	Estimated Expenditures using State Maximum Allowable Cost methodology	\$1,045,932	Total estimated expenditures for drugs if utilizing highest known State Maximum Allowable Cost rate (see Narrative).
C	Maximum Potential Savings	\$512,077	Total potential savings if all drugs are determined to be suitable for inclusion in the State Maximum Allowable Cost methodology. Row A - Row B
D	Number of Drugs with Estimated Annual Expenditures from \$50,000 to \$99,999	21	The number of individual drugs within the set for which estimated expenditures above have been compiled.
E	Average Savings per Drug	\$24,385	Estimated Average Savings per drug within the set. Row C / Row D

Table 1C: Potential Maximum Savings due to State Maximum Allowable Cost Pricing Expansion for Drugs with Annual Expenditures from \$20,000 to \$49,999			
Row	Item	Amount	Description
A	Estimated Annual Expenditures Using Existing Methodologies (excludes State Maximum Allowable Cost methodology)	\$1,410,493	Total expenditures for drugs, adjusted for known changes in reimbursement formulas and First Data Bank settlement (see Narrative).
B	Estimated Expenditures using State Maximum Allowable Cost methodology	\$907,379	Total estimated expenditures for drugs if utilizing highest known State Maximum Allowable Cost rate (see Narrative).
C	Maximum Potential Savings	\$503,114	Total potential savings if all drugs are determined to be suitable for inclusion in the State Maximum Allowable Cost methodology. Row A - Row B
D	Number of Drugs with Estimated Annual Expenditures from \$20,000 to \$49,999	45	The number of individual drugs within the set for which estimated expenditures above have been compiled.
E	Average Savings per Drug	\$11,180	Estimated Average Savings per drug within the set. Row C / Row D

Table 1D: Potential Maximum Savings due to State Maximum Allowable Cost Pricing Expansion for Drugs with Annual Expenditures from \$10,000 to \$19,999			
Row	Item	Amount	Description
A	Estimated Annual Expenditures Using Existing Methodologies (excludes State Maximum Allowable Cost methodology)	\$707,127	Total expenditures for drugs, adjusted for known changes in reimbursement formulas and First Data Bank settlement (see Narrative).
B	Estimated Expenditures using State Maximum Allowable Cost methodology	\$487,562	Total estimated expenditures for drugs if utilizing highest known State Maximum Allowable Cost rate (see Narrative).
C	Maximum Potential Savings	\$219,565	Total potential savings if all drugs are determined to be suitable for inclusion in the State Maximum Allowable Cost methodology. Row A - Row B
D	Number of Drugs with Estimated Annual Expenditures from \$10,000 to \$19,999	49	The number of individual drugs within the set for which estimated expenditures above have been compiled.
E	Average Savings per Drug	\$4,481	Estimated Average Savings per drug within the set. Row C / Row D

Table 1E: Potential Maximum Savings due to State Maximum Allowable Cost Pricing Expansion for Drugs with Annual Expenditures from \$1,000 to \$9,999			
Row	Item	Amount	Description
A	Estimated Annual Expenditures Using Existing Methodologies (excludes State Maximum Allowable Cost methodology)	\$846,133	Total expenditures for drugs, adjusted for known changes in reimbursement formulas and First Data Bank settlement (see Narrative).
B	Estimated Expenditures using State Maximum Allowable Cost methodology	\$612,278	Total estimated expenditures for drugs if utilizing highest known State Maximum Allowable Cost rate (see Narrative).
C	Maximum Potential Savings	\$233,855	Total potential savings if all drugs are determined to be suitable for inclusion in the State Maximum Allowable Cost methodology. Row A - Row B
D	Number of Drugs with Estimated Annual Expenditures from \$1,000 to \$9,999	200	The number of individual drugs within the set for which estimated expenditures above have been compiled.
E	Average Savings per Drug	\$1,169	Estimated Average Savings per drug within the set. Row C / Row D

Table 1F: Potential Maximum Savings due to State Maximum Allowable Cost pricing expansion for drugs with Annual Expenditures up to \$999			
Row	Item	Amount	Description
A	Estimated Annual Expenditures Using Existing Methodologies (excludes State Maximum Allowable Cost methodology)	\$47,267	Total expenditures for drugs, adjusted for known changes in reimbursement formulas and First Data Bank settlement (see Narrative).
B	Estimated Expenditures using State Maximum Allowable Cost methodology	\$31,805	Total estimated expenditures for drugs if utilizing highest known State Maximum Allowable Cost rate (see Narrative).
C	Maximum Potential Savings	\$15,462	Total potential savings if all drugs are determined to be suitable for inclusion in the State Maximum Allowable Cost methodology. Row A - Row B
D	Number of Drugs with Estimated Annual Expenditures up to \$999	169	The number of individual drugs within the set for which estimated expenditures above have been compiled.
E	Average Savings per Drug	\$91	Estimated Average Savings per drug within the set. Row C / Row D

Table 2: Potential Maximum Savings due to State Maximum Allowable Cost pricing			
Row	Item	Amount	Description
A	Estimated Annual Expenditures Using Existing Methodologies (excludes State Maximum Allowable Cost methodology)	\$10,352,994	Cumulative total of Row A of Tables 1A - 1F. Total estimated expenditures for drugs, adjusted for known changes in reimbursement formulas and First Data Bank settlement. (See Narrative)
B	Estimated Expenditures using State Maximum Allowable Cost methodology	\$5,976,818	Cumulative Total of Row B of Tables 1A - 1F. Total estimated expenditures for drugs utilizing highest known State Maximum Allowable Cost rate. (See Narrative.)
C	Maximum Potential Savings	\$4,376,176	Total potential savings possible if all drugs are determined to be suitable for inclusion in the State Maximum Allowable Cost methodology. Row A - Row B
D	Total Number of Drugs	502	The total number of individual drugs showing a lower estimated State Maximum Allowable Cost compared to existing methodology.
E	Average Savings per Drug	\$8,717	Estimated Average Savings per drug. Row C / Row D

Table 3: Estimated Annual Savings due to State Maximum Allowable Cost Expansion			
Row	Item	Amount	Description
A	Maximum Potential Savings	\$4,376,176	This amount represents the maximum potential savings if all drugs were determined to be suitable for inclusion in the State Maximum Allowable Cost methodology. Table 2, Row C
B	Suitability Ratio	60%	A drug may show possible savings from use of the State Maximum Allowable Cost methodology, however, may be determined to be unsuitable. The Department assumes 60% of potential drugs will be determined to be suitable for inclusion in the final reimbursement pool using the State Maximum Allowable Cost methodology.
C	Total Estimated Savings from Implementation of State Maximum Allowable Cost methodology	\$2,625,706	Row A * Row B
D	Annualized savings from the implementation of the State Maximum Allowable Cost already reduced in the Department's appropriation	(\$510,806)	The initial State Maximum Allowable Cost implementation approved and appropriated in the Long Bill (SB 09-259) anticipated an annual savings in FY 2010-11 and beyond of \$510,806.
E	Estimated Annual Savings from Expansion of State Maximum Allowable Cost methodology	\$2,114,900	Estimated Annual Net Savings resulting from expansion of the State Maximum Allowable Cost methodology. Row C + Row D
F	Estimated Savings in FY 2010-11	\$1,057,450	The Department expects implementation of the State Maximum Allowable Cost expansion to be completed by January 2011. Row E * (6 months / 12 months)

Row	Item	FY 2010-11	Description
A	Hours Required for Screen Changes to the Medicaid Management Information System	268	See Narrative.
B	Hours Required for New Interface Change to the Medicaid Management Information System	500	See Narrative.
C	Hourly Rate	\$126	See Narrative.
D	Total Automated Prior Authorization Amount	\$96,768	(Row A + Row B) * Row C.

Implementation Schedule:

NOTE: An implementation plan for the initial creation of State Maximum Allowable Cost methodology was submitted and approved as part of the FY 2009-10 budgets. That implementation plan remains in place and would serve as the foundation for the implementation of the expansion.

Task	Start	Complete	Description
Automation of State Maximum Allowable Cost expansion in the Medicaid Management Information System	7/1/2010	11/30/2010	Programming time required to complete is 768 hours. Expansion timeline assumes a 10% overlap of work capability for the two main tasks.
Initial Expansion Drug Data-gathering Period for Contractor	11/1/2010	11/30/2010	One month will be required for the contractor to gather, analyze, and prepare the first data report for submittal to the Department.
Transmittal of Expansion Drug Data into the Medicaid Management Information System	12/1/2010	12/31/2010	The first round of transmitting data into the Medicaid Management Information System is given a one-month timeline to allow for the high amount of data.
Expanded State Maximum Allowable Cost goes into Effect	1/1/2011	N/A	State Maximum Allowable Cost expansion fully implemented.

Assumptions for Calculations:

The Department assumes that expanding a State Maximum Allowable Cost rate structure would have no effect on co-pays, dispensing fees, or third-party paid amounts.

The Department analyzed data from other states and organizations that utilize a rate methodology similar to Colorado's State Maximum Allowable Cost methodology. In order to not underestimate the likely State Maximum Allowable Cost reimbursement rates, the Department used the highest rate retrieved from this database for each drug.

The Department analyzed Medicaid Management Information System claims data for FY 2008-09 for 3,833 unique drugs that met the minimum criteria for inclusion in the State Maximum Allowable Cost methodology. Based on this information, the Department developed estimated reimbursement rates reflecting the Department's current rate methodology for each drug in FY 2009-10 forward. This was achieved by incorporating expected changes into the FY 2008-09 reimbursement rates. These adjustments include changes to the discounts as well as adjustments to reflect the First Data Bank litigation settlement.

Of the 3,833 drugs, 502 were identified as having potential savings. The final selection of specific drugs within the pool of 502 potential drugs would ultimately be determined by the Department based upon consideration of several important factors. These factors include the following: the number of manufacturers producing a particular drug, the quantity of drugs produced, the range of wholesale pricing available, the ability of pharmacies to purchase drugs at a cost below State Maximum Allowable Cost reimbursement rates, the availability of generic equivalents, and other miscellaneous factors that may arise. Therefore, the Department assumes that approximately 60% of the 502 drugs with potential savings will be suitable for inclusion in the final State Maximum Allowable Cost reimbursement pool.

The Department assumes that future utilization patterns for a given drug will be similar to what was observed in FY 2008-09.

The 502 drugs identified as having potential savings include those used for the initial State Maximum Allowable Cost implementation. Therefore the total savings estimate includes the amount of the previous FY 2010-11 budget reduction of \$510,806. For this reason, \$510,806 is subtracted from the total savings estimate (see Table 3).

The Department assumes that savings materialize at a uniform rate over the course of the first year of implementation since payments to pharmacies are made weekly throughout the year.

The Department assumes that the necessary changes to the Medicaid Management Information System are eligible for 75% federal financial participation. The Department assumes 500 hours will be required for the interface changes, 268 hours will be required for the screen upgrades, and the hourly cost will be \$126. These figures are based on the Department's experience with the Medicaid Management Information System vendor.

The Department assumes that the increased federal match as a result of the American Recovery and Reinvestment Act of 2009 (ARRA) will remain at 61.59% through December 31, 2010. Thereafter, the rate will revert to a 50% match. Therefore, the blended rate for FY 2010-11 is assumed to be 55.795%.

Impact on Other Government Agencies: This request will not impact other state agencies.

Cost Benefit Analysis:

FY 2010-11 Cost Benefit Analysis	Costs	Benefits
Request	Costs include one-time funding of \$96,768 total funds, \$24,192 General Fund, for changes to the Medicaid Management Information System to accommodate the expansion of the State Maximum Allowable Cost methodology.	By expanding the number of drugs that will be included in the State Maximum Allowable Cost pricing methodology, the Department would realize General Fund savings of \$443,253 in FY 2010-11. These General Fund savings will annualize to \$1,057,450 in FY 2011-12.
Consequences if not Funded	If the Department were unable to make the necessary changes to the Medicaid Management Information System to accommodate the expansion of the State Maximum Allowable Cost pricing methodology it is likely that Department would not realize all or part of the estimated General Fund savings of \$443,253 in FY 2010-11 and \$1,057,450 in FY 2011-12.	There are no benefits.

Statutory and Federal Authority: 25.5-4-401 (2), C.R.S. (2009) *As to all payments made pursuant to this article and articles 5 and 6 of this title, the state department rules for the payment of providers may include provisions that encourage the highest quality of medical benefits and the provision thereof at the least expense possible.*

42 C.F.R. §447.205 (2008) *Public notice of changes in statewide methods and standards for setting payment rates. (a) Except as specified in paragraph (b) of this section, the agency must provide public notice of any significant proposed change in its methods and standards for setting payment rates and services.*

(b) When notice is not required. Notice is not required if -- (3) The change is based on changes in wholesalers' or manufacturers' prices of drugs or materials, if the agency's reimbursement system is based on material cost plus a professional fee.

42 C.F.R. §447.514 (2008) Upper Limits for Multiple Source Drugs. (a) Establishment and issuance of a listing. (1) CMS will establish and issue listings that identify and set upper limits for multiple source drugs that meet the following requirements:

(i) The FDA has rated two or more drug products as therapeutically and pharmaceutically equivalent in its most current edition of "Approved Drug Products with Therapeutic Equivalence Evaluations" (including supplements or in successor publications), regardless of whether all such formulations are rated as such and only such formulations shall be used when determining any such upper limit.

(ii) At least two suppliers meet the criteria in paragraph (a)(1)(i) of this section.

(2) CMS publishes the list of multiple source drugs for which upper limits have been established and any revisions to the list in Medicaid Program issuances.

(b) Specific upper limits. The agency's payments for multiple source drugs identified and listed periodically by CMS in Medicaid Program issuances must not exceed, in the aggregate, payment levels determined by applying for each drug entity a reasonable dispensing fee established by the State agency plus an amount established by CMS that is equal to 250 percent of the AMP (as computed without regard to customary prompt pay discounts extended to wholesalers) for the least costly therapeutic equivalent.

Performance Measures:

The Department believes that the expansion of the State Maximum Allowable Cost program will help maintain client access to prescription drugs through pharmacies while improving the cost-effectiveness of the Pharmacy Benefits program. Additionally, the use of information technology is crucial to the successful operation of this request, and would be utilized by the Department to create more efficient administration of a State Maximum Allowable Cost methodology. Further, the Department would make progress toward achieving the following Objective and Performance Measure:

Objective

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

Performance Measure

- Improve access to health care, increase health outcomes and provide more cost effective services using information technology.