



BOARD OF SUPERVISORS
AGENDA LETTER

Agenda Number:

Clerk of the Board of Supervisors
105 E. Anapamu Street, Suite 407
Santa Barbara, CA 93101
(805) 568-2240

Department Name: Public Health
Department
Department No.: 041
For Agenda Of: June 19, 2012
Placement: Administrative
Estimated Tme:
Continued Item: No
If Yes, date from:
Vote Required: Majority

TO: Board of Supervisors
FROM: Department Takashi Wada, MD, MPH, Director & Health Officer
Director(s) Public Health Department
Contact Info: Dan Reid, MPA, Assistant Deputy Director, Public Health
Department
SUBJECT: 340B PHD Pharmacy Network Agreements

County Counsel Concurrence

As to form: Yes

Other Concurrence: Risk Management

As to form: Yes

Recommended Actions:

That the Board of Supervisors consider recommendations as follows:

- a) Approve and authorize the Chair to execute the SUNRx, LLC Administrative Services Agreement for the period of June 19, 2012 to June 18, 2015 for the development, establishment and administration, of a 340B Pharmacy Network administered by the Public Health Department.
- b) Approve and authorize the Chair to execute the CenCal Savings Share Agreement for the period of June 19, 2012 to June 18, 2015 to reduce CenCal Health pharmaceutical costs for Public Health Department patients who are CenCal members and generate potential revenue for the Public Health Department through the establishment of a 340B Pharmacy Network.
- c) Authorize the Public Health Department Director or designee to recruit local retail pharmacies for the Public Health Department 340B Pharmacy Network and execute or terminate agreements with said pharmacies to dispense medications to CenCal members assigned to the Public Health Department.
- d) Determine that these activities are exempt from California Environmental Quality Act review per CEQA Guideline Section 15061(b)(3), since it can be seen with certainty that there is no possibility that the activities may have a significant effect on the environment.

Auditor-Controller Concurrence

As to form: Yes

Summary Text:

Because of its Federally Qualified Health Center (FQHC) status, the Public Health Department (PHD) has the ability to participate in the Federal Section 340B Drug Discount program as a “covered entity”. As a covered entity, PHD is able to purchase certain drugs at the lowest market price made available in order to provide access to affordable medications for its patients. Effective April 5th, 2010, long awaited federal guidelines were released that enhanced the ability of covered entities to expand the scope of contracted pharmacies that can dispense 340B drugs on behalf of their patients and create 340B *pharmacy networks*. Under the new guidelines, PHD has been working very closely with CenCal Health (CenCal) and SUNRx, LLC to establish a 340B PHD Pharmacy Network for County patients who are also CenCal members.

The establishment of this 340B PHD Pharmacy Network increases access for PHD patients to discounted medications through the federal 340B program and includes a Savings Share Agreement with CenCal. Through the Savings Share Agreement, PHD and CenCal will reduce CenCal pharmaceutical costs and potentially generate new revenue for PHD. MedImpact (the current CenCal pharmacy benefit manager) and SUNRx, LLC (SUNRx) will administer this new agreement and existing agreements.

The Agreements

Approval of Recommendation A will establish the 340B PHD Pharmacy Network with the three in-house PHD pharmacies via the execution of the *SunRx Agreement*, attached here and referred to as “Agreement A” for the purposes of this Board Letter.

Approval of Recommendation B will establish a partnership between CenCal and PHD for the cost reductions and potential revenue generation via the execution of the *Savings Share Agreement*, attached here and referred to as “Agreement B” for the purposes of this Board Letter.

Approval of Recommendation C will provide for additional appropriate retail pharmacies and their associated pharmaceutical wholesalers to be recruited for expansion of the 340B PHD Pharmacy Network. These recruited retail pharmacies will be known as “Contract Pharmacies” and their agreements will contain the terms established in the *MedImpact 340B Contract Pharmacy Benefit Manager (PBM) Agreement Template*, attached here and referred to as “Agreement C” for the purposes of this Board Letter.

Each Contract Pharmacy will sign a *340B Contract Pharmacy Acknowledgement* form, provided under Exhibit 6A of the MedImpact Agreement and provided as a separate attachment to this Board Letter. This Acknowledgment form will be added to the existing PHD MedImpact PBM Agreement. In order to replenish Contract Pharmacies’ inventories for medications dispensed through this 340B PHD Pharmacy Network, PHD will need to develop additional pharmaceutical wholesaler/distributor expenditure agreements. The illustration below provides an overview of the roles and relationships of the various partners in the development and administration of the proposed 340B PHD Pharmacy Network.

340B PHD Pharmacy Network Services and Administration



Pharmaceutical Wholesaler/Distributor

- Establishes bill to/ship to accounts with PHD for Contract Pharmacy Network
- Supplies replenishment inventory, after PHD authorization, to Contract Pharmacies
- Provides utilization data to PHD and Contract Pharmacy Administrators



Contract Pharmacy Administration

- Creates and manages network of Contract Pharmacies
- Tracks inventory dispensed and revenue generated
- Provides online database for auditing and reporting elements of program
- Determines applicable rate for medications dispensed at Contract Pharmacies and allocates revenue/cost reduction among PHD and CenCal



HEALTH CARE CENTERS

PUBLIC HEALTH DEPARTMENT
SANTA BARBARA COUNTY

Covered Entity (Eligible Entity)

- Provides oversight for PHD Contract Pharmacy Network
- Authorizes 340B medication inventory replenishment for Contract Pharmacies
- Buys 340B medications from Pharmaceutical Wholesalers/Distributors
- Audits Contract Pharmacies
- Operates 3 in-house Pharmacies under 340B
- Shares in savings (cost reductions) with CenCal.



Contract Pharmacies

- Dispenses medications to eligible patients
- Receives replenishment inventory from Pharmaceutical Wholesaler
- Works with Contract Pharmacy Administrator and PHD to ensure compliance with 340B regulations



CenCalHEALTH™
The Regional Health Authority

Member Pharmaceutical Benefits

- Provides pharmaceutical benefits for members
- Provides payment for membership medications and administrative fees, through PHD to Pharmaceutical Wholesaler
- Provides eligible patient and provider information to Contract Pharmacy Administrator
- Shares in cost reductions (savings) with PHD

Background:

Through its network of six ambulatory Health Care Centers and three satellites countywide, PHD is CenCal's largest primary care provider in Santa Barbara County, with approximately 13,000 assigned members. In addition, three Health Care Center locations (Santa Barbara, Santa Maria and Lompoc) provide in-house pharmacies to serve PHD patients for their prescription needs, although PHD patients may also choose to fill their prescriptions at outside retail pharmacies. CenCal provides reimbursement (at network rates) to the County and retail pharmacies for eligible prescriptions for their members.

Section 602 of the Public Law 102-585, "the Veterans Health Care Act of 1992", enacted Section 340B of the Public Health Service Act. Section 340B implements a drug pricing program by which manufacturers who sell covered outpatient drugs to certain covered entities must agree to charge a discounted price for these covered outpatient drugs. The Health Resources Services Administration (HRSA) is the federal agency charged with the oversight of this program through its Office of Pharmacy Affairs (OPA).

CenCal, as a Health Insuring Organization and a County Organized Health System, is eligible to participate in partnership with the County to reduce medication costs for CenCal members through access to the 340B Drug Pricing Program. Through approval of Recommendations A and B, the County and CenCal will enter into a "Savings Share Agreement", administered by SUNRx and MedImpact, by which the reduced medication savings generated by access to the 340B Drug Pricing Program will be divided between the organizations.

The County currently has an agreement with MedImpact, a pharmacy benefit manager, that adjudicates County drug claims for CenCal Health. This existing MedImpact agreement will not need to be modified for the PHD in-house pharmacies. SUNRx is an organization that has partnered with MedImpact to develop and implement 340B Pharmacy Networks for other covered entities nationwide by providing innovative technologies to manage the 340B program requirements. Currently CenCal, MedImpact and SUNRx have developed 340B Pharmacy Networks for the Community Health Centers of the Central Coast and the Santa Barbara Neighborhood Clinics and is in the process of considering a new network for the American Indian Health and Services in Santa Barbara.

Under the HRSA requirements for the 340B Drug Pricing Program, PHD, as the covered entity, is responsible for the oversight and administration of any 340B Pharmacy Network it establishes and must ensure compliance with the following requirements of the 340B program which state that:

- Only eligible patients of the covered entity receive these benefits
- Only outpatient drugs are discounted
- Records of transactions are transparent and auditable; and,
- No "double discounting" occurs

State managed care plans such as Medicaid (Medi-Cal in California), are eligible to negotiate drug discounts directly from drug manufacturers but are prohibited from receiving these discounts on outpatient eligible drugs dispensed through the 340B Drug Pricing Program. This practice is known as double discounting. In order for the PHD to ensure that drugs dispensed through its in-house or contract pharmacies as part of the 340B Drug Discount Program are not subsequently discounted by State Medi-Cal, comprehensive drug claim information must be collected and reported to the State Medi-Cal on an ongoing basis. By authorizing Recommendation A, the PHD will receive assistance from SUNRx to recruit and provide training/education for contract pharmacies for the network. More importantly, SUNRx and MedImpact will work in tandem through customized technology to ensure proper auditable inventory control, proper outpatient drug discounting and that 340B drug dispensing data is reported to State Medi-

Cal. Furthermore, CenCal will assist in ensuring that only eligible patients (which, for the purposes of these agreements are PHD patients who are CenCal members) will receive access to the 340B Drug Discount Program. Future program enhancements may include other PHD patient populations such as Medicare Part D, Medically Indigent Adult (MIA) program and/or self-pay patients if the program proves successful and warrants expansion.

It is important to note that pharmaceutical claims will only be adjudicated as part of these new agreements if there is the potential for savings in using 340B eligible outpatient drugs as opposed to drugs obtained at current CenCal Pharmacy Network Prices. The potential for savings will be calculated based upon the current pricing and the administrative fees included in the SUNRx and MedImpact agreement elements. If there are no potential savings or the drugs are not eligible for the 340B Drug Discount Program, the medication claims for the PHD CenCal members receiving their medications from network pharmacies will be adjudicated as they currently are, through existing CenCal Pharmacy Network agreements with MedImpact. Therefore, not all prescriptions will be adjudicated at 340B pricing; some pharmaceutical wholesaler or manufacturer pricing may already be lower than what is available under 340B Drug Discount Program pricing.

By approving Recommendation C, the County will work with SUNRx, MedImpact and CenCal to establish a 340B PHD Pharmacy Network of contract pharmacies that will be able to participate in the 340B Drug Discount Program for PHD patients that are CenCal members. Contract pharmacies receive an enhanced dispensing fee that ensures payment for all costs for participation in the program and all eligible medications dispensed through this 340B PHD Pharmacy Network will be replenished through the establishment of PHD expenditure agreements with the Contract Pharmacies' associated pharmaceutical wholesaler/distributor. Actual expenditures for these 340B medications are paid by CenCal to PHD as part of this 340B claims adjudication process. Typical Contract Pharmacy dispensing fees range from \$9-\$12 for standard medications and higher dispensing fees for specialty medications, which have limited supply and high acquisition costs. Claims adjudicated as part of this 340B PHD Pharmacy Network, as described above, will have savings after Contract Pharmacy dispensing fees and administrative fees are paid. These savings will be shared between CenCal and the County. For the most part, the more Contract Pharmacies participating in the 340B PHD Pharmacy Network, the more revenue for the County and CenCal will be generated.

Based upon historic PHD patient medication claims information for CenCal members, PHD estimates that approximately \$165,000 of net revenue annually will be generated as an outcome of the establishment of a 340B PHD Pharmacy Network that includes several high use retail pharmacies. This potential new revenue will offset approximately \$160,000 of reduced revenue as a result of recent market rate reductions for claims adjudication of CenCal members through MedImpact. This new revenue will also be used to offset additional 340B PHD Pharmacy Network administrative costs (estimated at \$5,000) for ensuring compliance with HRSA program requirements.

If the County does not enter into these agreements, CenCal may choose to reduce current CenCal Pharmacy Network Rates (over and above the \$160,000 recent reductions) to be in alignment with the 340B Drug Discount Program that will significantly further reduce PHD in-house pharmacy revenues.

Fiscal and Facilities Impacts:

Budgeted: Yes

Fiscal Analysis:

The development of a 340B PHD Pharmacy Network is initially estimated to generate approximately \$165,000 annually in new revenues to the PHD, which will offset new reductions in Medi-Cal rates for

reimbursement of pharmaceuticals, estimated at \$160,000 annually. An additional \$5,000 of new revenues is expected to be used for the costs of increased oversight and an audit compliance function for the new program, as HRSA recommends the use and engagement of independent auditors.

All associated revenue from the Savings Share agreement and related expenditure appropriation for the pharmaceutical wholesalers associated with the contract pharmacies has been incorporated into the Public Health Department's Fiscal Year 2012-13 Recommended Budget.

Staffing Impacts:

Legal Positions:

0

FTEs:

0

Special Instructions:

Please return one (1) fully executed Agreement and one certified Minute Order to PHD Contracts Unit, 300 North San Antonio Road, Bldg 8, Santa Barbara, CA 93110, Attn: Rose Davis.

Attachments:

Agreement A: The SUNRx Administrative Services Agreement

Agreement B: The Savings Share Agreement

Agreement C: The MedImpact 340B Contract Pharmacy Benefit Manager Agreement Template

The MedImpact 340B Contract Pharmacy Network Acknowledgement Form (Exhibit 6A) of the MedImpact Agreement

Authored by:

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