

Department of General Services' Efforts to Control State Prescription Drug Spending

LEGISLATIVE ANALYST'S OFFICE

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Assembly Health Committee
Hon. Jim Wood, Chair





Background



Department of General Services' (DGS) Overall Responsibilities. DGS, which is under the California Government Operations Agency, provides a variety of services to state departments, including:

- Procurement.
- Management of state-owned and leased real estate and the state's vehicle fleet.
- Printing, administrative hearings, and legal services.
- Development of building standards.
- Oversight over school construction.



DGS Executes Pharmaceutical Contracts on Behalf of Multiple Participating State Departments. Given DGS's experience with procurement, the state has vested DGS with responsibility for contracting for prescription drug purchases on behalf of multiple state departments. Figure 1 lists the major state departments that purchase prescription drugs under DGS contracts and their total 2015-16 prescription drug expenditures. The Department of Corrections and Rehabilitation (CDCR), Department of State Hospitals, and Department of Developmental Services are required to procure prescription drugs through DGS, while participation for all other state or local departments and organizations is voluntary.

Figure 1

State Departments That Participate in Department of General Services Pharmaceutical Contracts

Department	2015-16 Expenditures
California Department of Corrections and Rehabilitation—California Correctional Health Care Services	\$239,454,095
Department of State Hospitals	34,895,455
Department of Developmental Services	8,539,096
California State Universities	3,569,905
California Department of Corrections and Rehabilitation—Division of Juvenile Justice	275,695
Total	\$286,734,247

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- State Costs for Prescription Drugs Purchased Through DGS Have Increased at a High Rate.*** State spending on prescription drugs purchased through DGS have increased at an annual rate of around 20 percent between 2012-13 and 2015-16.
 - State Prescription Drug Purchases Under DGS Account for a Relatively Small Portion of State Prescription Drug Expenditures.*** The state departments that purchase prescription drugs under DGS contracts account for between five and ten percent of state prescription drug spending. The major state spenders that do not pay for prescription drugs through DGS contracts are Medi-Cal, the state's Medicaid program, and the California Public Employees' Retirement System (CalPERS).
 - DGS Contracts Primarily for Direct Prescription Drug Purchases Rather Than Pharmacy Reimbursement.*** A high portion of state prescription drug expenditures under DGS contracts are for drugs that are delivered to and used at state-run facilities, in contrast to being dispensed at nonstate pharmacies to state program beneficiaries with reimbursement to the pharmacy from the state. DGS primarily relies on a prescription drug wholesaler, AmerisourceBergen Drug Corporation, for the purchase and delivery of the prescription drugs procured by participating state departments. According to DGS, there are only three prescription drug wholesalers nationwide with the capacity to carry out the large-scale distribution necessary to meet the state's needs.
 - Limited Use of a Pharmacy Benefits Manager (PBM).*** To a more limited degree, DGS works with a PBM, Magellan, to obtain discounts on the small proportion of drugs paid for under DGS contracts that are dispensed by nonstate pharmacies. By contrast, Medi-Cal and CalPERS primarily reimburse pharmacies for the drugs they pay for. (CalPERS uses a PBM for a portion of its drug expenditures while Medi-Cal does not use a PBM.)



25 Most Costly Drugs Account for 50 Percent of State Drug Expenditures That Occur Through DGS Contracts. A limited number of high-cost prescription drugs account for a high portion of state drug expenditures under DGS contracts. Single-source, brand name drugs tend to have the highest prices while multi-source, generic drugs typically have lower prices. In 2016, one Hepatitis C drug, Harvoni, accounted for 15 percent of state drug expenditures under DGS procurement contracts. As shown in Figure 2, in 2016, two-thirds of state drug expenditures under DGS contracts were concentrated in just six therapeutic classes.

Figure 2

Top 6 Therapeutic Classes of Drugs Make Up Two-Thirds of State Drug Expenditures Under DGS Contracts

Therapeutic Class	2016 Expenditures	Percent of Total Expenditures ^a
Hepatitis C inhibitors	\$71,261,820	25%
Antipsychotics	42,975,163	15
Antiretrovirals	35,591,755	13
Antireheumatoid drugs	15,518,242	6
Anticonvulsants	11,393,827	4
Insulins	9,844,700	3
Totals	\$186,585,507	66%

^a Total state drug expenditures under DGS contracts in 2016 are \$281,660,258. DGS = Department of General Services.



DGS Strategies to Reduce Statewide Prescription Drug Expenditures

USE VOLUME DRUG PURCHASING

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Volume Purchasing Gives Rise to Discounts. DGS's general strategy to reduce state drug expenditures is to engage in bulk purchasing on behalf of a number of state departments. As in the pharmaceutical market at large, purchasing in volume typically allows buyers to obtain discounts on the prescription drugs they purchase. DGS endeavors to increase the volume, and therefore the associated discounts, of the state's drug purchases in two general ways:

 - ***By Contracting on Behalf of Multiple State Departments.*** With more state departments (and other organizations) participating in DGS contracts, DGS is able to attain lower prescription drug prices due to increased state purchasing power. DGS primarily contracts with its wholesaler, AmerisourceBergen, for the prescription drugs procured by participating state departments.
 - ***By Encouraging the Utilization of the Same Prescription Drugs Across State Departments.*** By encouraging the utilization of the same prescription drugs across state departments, DGS can obtain greater discounts associated with the higher utilization of individual prescription drugs.

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DGS Success Depends in Part on the Number and Size of Participating Departments. Since the prices that DGS can obtain depends on the purchasing power it brings, the number of state departments that purchase their drugs under DGS contracts, in addition to the potential purchasing volume they bring, impacts the discounts that DGS can obtain. Including additional state departments and other organizations could enhance DGS's ability to negotiate steeper discounts. However, because Medi-Cal and CalPERS primarily reimburse pharmacies while DGS's contracting activities focus on direct drug purchases, there are not additional large state prescription drug purchasers to include in DGS prescription drug procurement contracts.



DGS Strategies to Reduce Statewide Prescription Drug Expenditures *(Continued)*

SHARED PRESCRIPTION DRUG FORMULARY

- The State's Common Drug Formulary.*** DGS oversees the state's Common Drug Formulary, the list of prescription drugs that medical professionals working at participating state departments may prescribe. The Common Drug Formulary is currently used by the Department of State Hospitals, Department of Developmental Services, and the Division of Juvenile Justice at CDCR and includes approximately 500 different prescription drugs. All of CDCR participated in the Common Drug Formulary prior to coming under federal receivership.

- Drug Formularies Can Lead to Price Concessions.*** Prescription drug formularies are used to provide an incentive for drug sellers to grant price concessions in exchange for their drugs being made available to patients. The effectiveness of a formulary in reducing costs generally depends on (1) how restrictive it is with regard to the drugs made available and (2) the purchasing power of the entity or entities that use the formulary.

- Savings Preserved Since CDCR's Formulary Differs Only to a Small Degree From DGS's Common Drug Formulary.*** Despite having a separate formulary, CDCR's formulary differs only to a small degree from DGS's Common Drug Formulary, preserving the potential for savings on the large majority of drugs that are shared between the two formularies. Differences in their formularies are generally attributable to the unique needs of the CDCR population, for example, around safety for the state's prison population.



DGS Strategies to Reduce Statewide Prescription Drug Expenditures *(Continued)*

DIRECTLY CONTRACT WITH DRUG MANUFACTURERS TO OBTAIN DISCOUNTS ON CERTAIN HIGH-COST DRUGS

In addition to utilizing volume-based purchasing and a formulary, DGS negotiates contracts directly with the manufacturers of certain high-cost prescription drugs to obtain steeper discounts for the state. DGS has a total of 17 direct contracts with prescription drug manufacturers. As indicated in Figure 3, DGS directly contracts with the manufacturers of six of the 25 highest-cost prescription drugs in DGS' total contract expenditures. Many of the remaining prescription drugs that account for a significant portion of state prescription drug spending under DGS contracts are generic drugs for which DGS obtains discounts through alternative mechanisms, such as participating in wider group purchasing efforts.

Figure 3

Top 25 Drugs in 2016 Drug Expenditures Through DGS by Contract Type

	General Wholesaler Contract	Direct Contract with Manufacturer	Wholesaler Contract With Generic Drug Discount	Group Purchasing Organization for Generic Drugs	Totals for Top 25 Drugs
Number of Drugs	9	6	3	7	25
2016 Expenditures	\$43,368,430	\$71,513,209	\$10,702,674	\$18,664,102	\$144,248,415

DGS = Department of General Services.



DGS Strategies to Reduce Statewide Prescription Drug Expenditures *(Continued)*

THE CALIFORNIA PHARMACEUTICAL COLLABORATIVE

The California Pharmaceutical Collaborative (Collaborative) is a workgroup led by DGS that was established to coordinate strategies related to prescription drug purchasing and pricing across state departments and other entities. Figure 4 lists the major state and local organizations that participate in the Collaborative. Among other activities, the Collaborative meets to consider, on a statewide basis, ways to (1) achieve the best value in the procurement and pricing of drugs, (2) track high-cost prescription drugs, and (3) identify other important issues related to prescription drug pricing and procurement.

Figure 4

California State and Local Departments and Organizations That Participate in the California Pharmaceutical Collaborative

Department of General Services	Department of Developmental Services
Department of Finance	Department of Veterans Affairs
Department of Corrections and Rehabilitation	Department of Industrial Relations
Department of State Hospitals	California Public Employees' Retirement System
Department of Health Care Services	California State University
Department of Public Health	University of California
Covered California	California State Association of Counties



DGS Strategies to Reduce Statewide Prescription Drug Expenditures *(Continued)*

DGS INITIATIVES TO REDUCE STATEWIDE PRESCRIPTION DRUG EXPENDITURES

DGS has ongoing efforts to continue to reduce state drug spending, including:

- Improve Statewide Collaboration Through a Reconfigured Collaborative.*** In 2016, the Collaborative was reconfigured to broaden its focus and encourage greater participation among its members. The Department of Finance became a member at this time, for example, and the Collaborative's focus broadened somewhat to include issues related to prescription drug spending at large, rather than just procurement.

- Include Local Government Agencies in DGS Pharmaceutical Contracts.*** DGS hopes to encourage county participation in its prescription drug contracts. Both the state and counties could benefit from such collaboration as it would increase DGS's collective purchasing power and thereby reduce the state and counties' prescription drug costs.