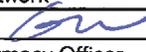


SUMMARY OF CONTRACT REQUEST TO THE HEALTH COMMISSION

Contractor: Walgreen Co.
 Address: 104 Wilmot, MS-1446
Deerfield, IL 60015
 Contact: Scott Schuler,
Divisional Vice President, Contracting

Division/Section: San Francisco Health Network
 Director, SFHN: Roland Pickens, Director, 
 Section Director: David Woods, Chief Pharmacy Officer
 Program Analyst/Monitor: David Woods Phone: 206-2332
 Contract Analyst: Junko Craft Phone: 255-3543

Request for approval of contract with Walgreen Co. in the amount of \$19,600,000 to provide 340B program Specialized Services and Third Party Claims Adjudication Coordination services for the period of January 1, 2016 through December 31, 2020 (5 years).

Profit Non-Profit MBE/WBE RFP - Number: RFP13-2013 Date: 06/06/13
 New Renewal Mod Sole Source - Approval Date: _____

Number of years DPH has been doing business with this organization: 0

<u>CONTRACT INFORMATION:</u>	<u>Prior Transaction (new)</u>	<u>Proposed Transaction 1/1/16-12/31/20 (5 Years)</u>	<u>Annualized Difference</u>
Contract Amount:			
Funding Sources:			
General Fund		\$17,500,000	\$3,500,000
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
TOTAL DPH REVENUES		\$17,500,000	\$3,500,000
Contingency (12%)		\$2,100,000	\$420,000
Agency Funds			
TOTAL PROGRAM		\$19,600,000	\$3,920,000
Annualized Total:		\$3,920,000	\$3,920,000
Contract FTE		N/A	N/A

<u>PROPOSED:</u>	<u>Number of Clients Duplicated X Unduplicated</u>	<u>Number of Units</u>	<u>Unit Cost</u>
<u>Mode(s) of Service & Unit of Service Definition</u>			
<u>Expected volume:</u>	30,000	18,000	(see below)
<u>Unit costs:</u>			
Self-Pay Administrative Fee (1 UOS = 1 prescription)			\$0.50
Self-Pay Dispensing Fee (1 UOS = 1 prescription)			\$15.00
Private Insurer Administrative Fee			up to 20% ct. rate
Private Insurer Dispensing Fee (1 UOS = 1 prescription)			\$15.00
Private Insurer Fee			admin+disp.
Inventory Replenishment Rate (brand name and generic drugs)			avg whlsl - 85%
_____	_____	_____	_____
_____	_____	_____	_____

Note: If the difference between the contracted rate and the Private Insurer Fee is less than or equal to the drug price, Walgreens will retain the contracted rate.

Explanation of Service Change and Variances:

The 340B Drug Discount Program is a program administered by the U.S. Department of Health and Human Services (HHS) Health Resources and Services Administration (HRSA) under the Public Health Service Act (PHSA), which requires drug manufacturers to provide outpatient drugs to eligible health care organizations/Covered Entities at significantly reduced prices in order to lower medication costs for patients. Generally, the 340B Program covers: outpatient drugs such as FDA-approved prescription drugs; Over-The-Counter (OTC) drugs written on a prescription; biological products that can be dispensed only by a prescription (other than vaccines); or FDA-approved insulin.

DPH is approved as a Covered Entity under the 340B program with the option to carve-in outpatient drugs for MediCal patients, which requires all drugs billed under MediCal to be purchased under the 340B program (to avoid double billing and payments under both programs). In 2013, DPH conducted a Request For Proposal (RFP 13-2013) for a Third Party Administrator for the 340B program, with a focus on contracting with a provider with outpatient prescription pharmacy services in the community. Walgreens was selected, and DPH commenced what became substantial negotiations in order to insure compliance with the goals of the RFP, DPH policies, City contract requirements and the requirements of the 340B program.

The resulting negotiated contract includes a Not To Exceed amount of \$19.6 million (including contingency), for a projected \$3.5 million annually (excluding contingency). The initial term is five years, with 5 one-year options to renew, for a maximum 10-year term. The 12% contingency included is \$2.1 million (in accordance with DPH policy, this amount may only be included in the amount available to be paid to Walgreens through a formal amendment to the contract).

As the contract total is more than \$10 million, this contract will require Board of Supervisors approval.

This contract will enable DPH patients of outpatient programs to fill their prescriptions at their local Walgreens retail pharmacy at locations throughout the City. The San Francisco General Hospital (SFGH) Pharmacy will be included in this network. Also, during off-hours, clinics at Mission Neighborhood Health Center, San Francisco Medical Center Outpatient Improvement Programs, Inc., and the Native American Health Center will be covered by a designated Walgreens retail pharmacy.

Under this contract, Walgreens will:

- Provide all of the advice and pharmacy services it customarily provides to all of its patients;
- Provide online, point-of-service electronic claims adjudication 24/7 for prescriptions, including verifying patient and provider eligibility, the formulary status of the prescribed medication, and patients' co-payment status;
- During off-hours, maintain a toll-free voice mail recording system, with all messages answered within the next business day;
- Order and receive drugs from suppliers;
- Process and bill private insurers at contracted rates;
- Maintain an electronic tracking system that can prevent diversion to non-eligible patients;

- Report monthly to DPH on excess and deficient drug replenishment, and on drugs dispensed to non-eligible patients with and/or without a private insurers.

Walgreens also will provide assistance to DPH in program administration by:

- Reviewing the system and making recommendations for improved efficiency, cost savings, and revenue enhancement;
- Developing policies and procedures and guiding program compliance, and maximize benefits of 340B program participation;
- Posting to HRSA database to meet Covered Entity requirements, including registering pharmacies;
- Helping DPH prevent drug diversion and duplicate manufacturer discounts by conducting monthly reconciliation audits and other quality improvement activities.

Nondiscrimination and Cultural Competency:

The contractor states that it is in compliance with applicable nondiscrimination laws and regulations, and has been informed of the Department’s cultural competency and nondiscrimination policies. SFGH will work with Walgreens, monitor and respond to its performance in this area in compliance with DPH policy.

Walgreens states that it tries “to mirror the community in staffing our pharmacies.” It is able to print prescription labels in 16 different languages, and provides a “Dial-a-Pharmacist” in-store service to connect patients to a Walgreen’s pharmacist who speaks their language for consultation, if there is no one present on staff who speaks that language. Walgreen’s also provides a pharmacist who speaks the patient’s language for its “New to Therapy” program who are starting therapy across key disease states (i.e., diabetes), which has a pharmacist call the patient three days after prescription pick-up.

Other Significant Issues

Under this contract, DPH will verify patient eligibility and inform eligible patients that they are free to choose a pharmacy provider. DPH will pay for drugs ordered by Walgreens and suppliers will deliver directly to Walgreens. DPH will track orders, invoices and payments by each dispensing location. DPH will provide Walgreens with a prescriber list, a price file (as needed), and electronic files such as historical claim files and files supporting PARs needed to implement the program.

Monitoring will include review of a contracted provision that there be no more than 1% of the total operating time within each month. Reports to be provided by Walgreens to DPH include:

- patient prescription benefit utilization
- individual and aggregate provider prescribing patterns by drug and cost
- prescription costs and claims per therapeutic class
- non-formulary and prior authorization drugs approved or denied
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- individual claim charges totals showing use of prescription dispensing fee or Medicare MAC/pharmacy ‘usual and customary’ price and deduction from charge of prescription copayment amount
- revenue realized by claims from commercial and other non-MediCal prescription payers
- inventory reports by participating pharmacy; including replenishment and non-replenishment /carry-overs, drugs not reaching replenishment levels and the amount owed to the pharmacy for non-replenished drugs,
- drugs replenished to contract pharmacies identifying individual clinics from which claims used for replenishment report were generated.

Listing of Board of Directors:

Gregory D. Wasson
David J. Brailer, MD
Steven A. David
Mark P. Frissora
Ginger L. Graham

Dominic Murphy
Stefano Pessina
Barry Rosenstein
Nancy M. Schlichting
Alejandro Silva

The total number of board members must be no less than nine and no more than 14, and are specified by resolution of the shareholders.

Recommendations:

Based on the contractor’s selection under RFP 12-2013 and successful completion of contract negotiations, the Department recommends approval of this contract.