The Florida Senate

COMMITTEE MEETING EXPANDED AGENDA

BUDGET
Senator Alexander, Chair
Senator Negron, Vice Chair

MEETING DATE: Wednesday, January 12, 2011
TIME: 3:45 —5:15 p.m.
PLACE: *Pat Thomas Committee Room,* 412 Knott Building

MEMBERS: Senator Alexander, Chair; Senator Negron, Vice Chair; Senators Altman, Benacquisto, Bogdanoff, Fasano, Flores, Gaetz, Hays, Joyner, Lynn, Margolis, Montford, Rich, Richter, Simmons, Siplin, Sobel, Thrasher, and Wise

TAB	BILL NO. and INTRODUCER	BILL DESCRIPTION and SENATE COMMITTEE ACTIONS	COMMITTEE ACTION
1		Revenue Estimating Conference Update Amy Baker, Coordinator, Office of Economic & Demographic Research .	
2		Presentation on The Florida Rx Blueprint: Achieving Greater Savings for Florida's Taxpayers Jeffrey Lewis, Vice Chairman/President, PS2 .	

Florida:
Conference Update

January 12, 2011

Presented by:

The Florida Legislature
Office of Economic and
Demographic Research
850.487.1402
http://edr.state.fl.us

Key Revenue Streams for Next Year

FY 2011-12 Compared to Estimates for Long-Range Financial Outlook		
Final	Education Enhancement Trust Fund	
	Lottery	Essentially Flat
	Slot Macines	Down 23.6% (Miami Jai-Alai & Sales)
Final	Article V Fees & Transfers	Essentially Flat
Final	Tobacco Tax and Surcharge	
	General Revenue	No Change
	Trust Funds	No Change
Final	Highway Safety Fees	
	General Revenue	Down 3.6% (Init Reg, Titles & MVL)
	Trust Funds	Mixed
Final	Ad Valorem	Down (was up + 0.73%; now down -1.21%)
TBD	Gross Receipts Tax / CST / PECO	Likely Down
TBD	Transportation Revenues / STTF	Likely Down
TBD	General Revenue	Likely Down

Largely Offset by Change in Enrollment

Now Completed

Gross Receipts / CST / PECO...

Total Gross Receipts Collections

YEAR	$ Mil	Diff	% Chg
FY10-11	1095.4	-35.2	-3.2%
FY11-12	1122.4	-31.5	-2.8%
FY12-13	1165.1	-32.8	-2.8%
FY13-14	1212.0	-30.9	-2.5%
FY14-15	1258.9	-33.6	-2.7%
FY15-16	1304.1	-35.2	-2.7%
FY16-17	1348.0	-37.4	-2.8%
FY17-18	1390.2	-39.6	-2.8%
FY18-19	1432.0	-40.0	-2.8%
FY19-20	1471.7	-38.1	-2.6%

Portion available for bonding equals 90% of the average of the prior two years' collections, minus the debt service on old bonds. The rest is cash.

Maximum Possible PECO Appropriation

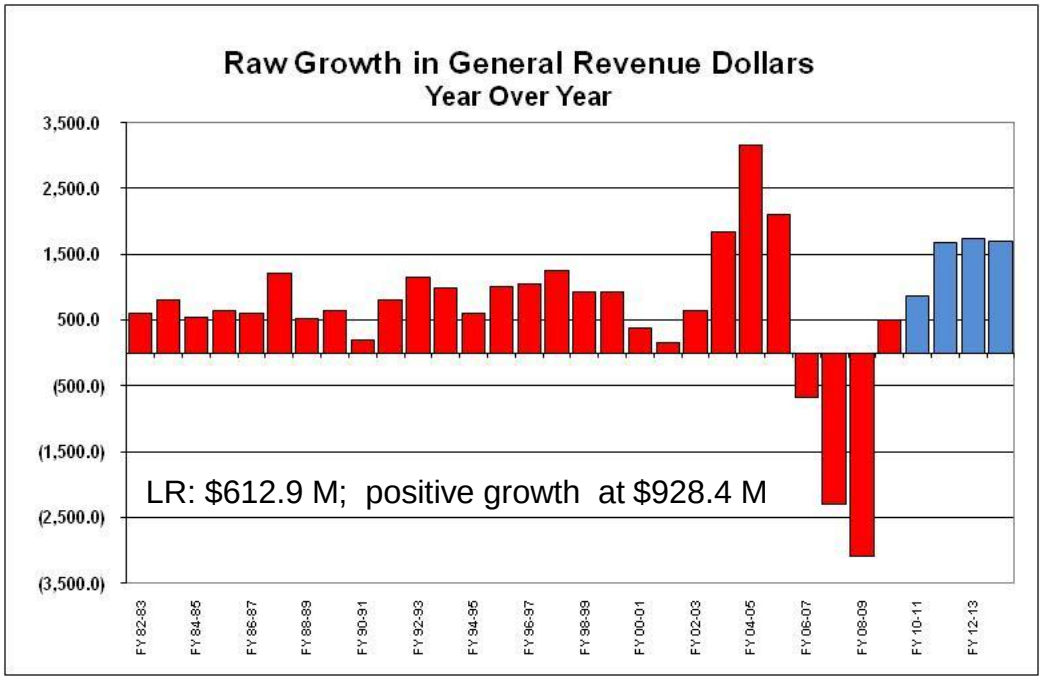
YEAR	$ Mil	Diff	% Chg
FY10-11	731.3	0	0.0%
FY11-12	356.3	-301.3	-84.6%
FY12-13	364.2	-170.4	-46.8%
FY13-14	957.5	0.3	0.0%
FY14-15	941.2	-7.7	-0.8%
FY15-16	831.0	-19.5	-2.3%
FY16-17	821.8	-33.5	-4.1%
FY17-18	829.9	-33.6	-4.0%
FY18-19	805.9	-31.3	-3.9%
FY19-20	799.7	-12.7	-1.6%

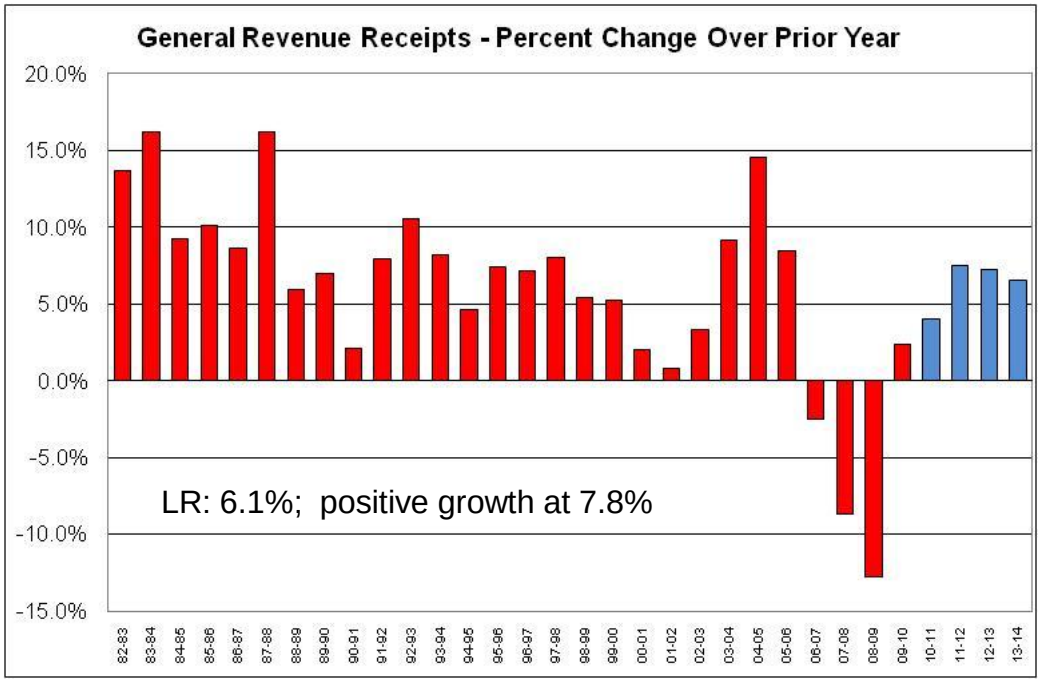
Transportation Revenues (STTF)...

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Previous Forecast (August 2010)						
Highway Fuel Sales Tax	1110.4	1162.7	1219.8	1275.9	1338.8	1396.9
SCETS Tax	640.2	671.9	699.9	735.5	767.5	802.4
Off-Highway Fuel Sales Tax	7.8	9.1	11.1	12.2	12.7	13.0
Aviation Fuel Tax	45.4	46.8	48.4	49.7	50.9	51.9
Fuel Use Tax and Fees	13.8	15.1	16.9	18.5	19.8	21.0
MVL-related Amount (from HS Conference)						
Motor Vehicle Licenses	527.7	543.3	565.3	587.2	603.7	618.3
Initial Registration Fee	84.7	94.5	104.7	111.3	116.5	121.7
Title Fees	88.2	95.1	100.1	104.7	108.7	112.0
Subtotal	700.6	732.9	770.1	803.2	828.9	852.0
Rental Car Surcharge	96.2	100.6	104.6	108.4	112.3	115.7
Local Option Distribution	40.8	42.0	43.3	44.4	45.4	46.4
TOTAL	2655.2	2781.1	2914.1	3047.8	3176.3	3299.3
Revised Forecast (December 2010)						
Highway Fuel Sales Tax	1098.9	1147.3	1202.8	1260.8	1323.8	1385.3
SCETS Tax	633.9	666.6	697.2	727.1	759.3	794.2
Off-Highway Fuel Sales Tax	8.9	9.3	11.3	12.7	13.5	13.9
Aviation Fuel Tax	45.3	46.8	48.5	50.0	51.2	52.2
Fuel Use Tax and Fees	14.9	16.2	18.1	19.8	21.2	22.6
MVL-related Amount (from HS Conference)						
Motor Vehicle Licenses	531.3	547.0	569.8	592.5	609.3	625.4
Initial Registration Fee	79.5	84.8	92.4	100.1	105.3	109.3
Title Fees	85.1	89.7	95.2	99.7	103.4	106.6
Subtotal	695.9	721.5	757.4	792.3	818.0	841.3
Rental Car Surcharge	96.8	100.3	104.4	108.4	112.4	115.7
Local Option Distribution	40.4	41.4	42.7	43.9	44.9	45.9
TOTAL	2635.0	2749.4	2882.4	3015.0	3144.3	3271.1
Difference	-20.2	-31.7	-31.7	-32.8	-32.0	-28.2
Cumulative Difference	**-20.2**	**-51.9**	**-83.6**	**-116.4**	**-148.4**	**-176.6**

STTF revenues were decreased by $176.6 M or about 1.0% during the work program period.

General Revenue Outlook





Fiscal Year	August Forecast	New Forecast	Difference (New - Aug)	Incremental Growth	Growth
2005-06	27074.8				8.4%
2006-07	26404.1				-2.5%
2007-08	24112.1				-8.7%
2008-09	21025.6				-12.8%
2009-10	21523.1				2.4%
2010-11	22967.0	22381.3	(585.7)	858.2	4.0%
2011-12	24672.7	24060.5	(612.2)	1679.2	7.5%
2012-13	26341.6	25808.1	(533.5)	1747.6	7.3%
2013-14	27955.7	27503.1	(452.6)	1695.0	6.6%

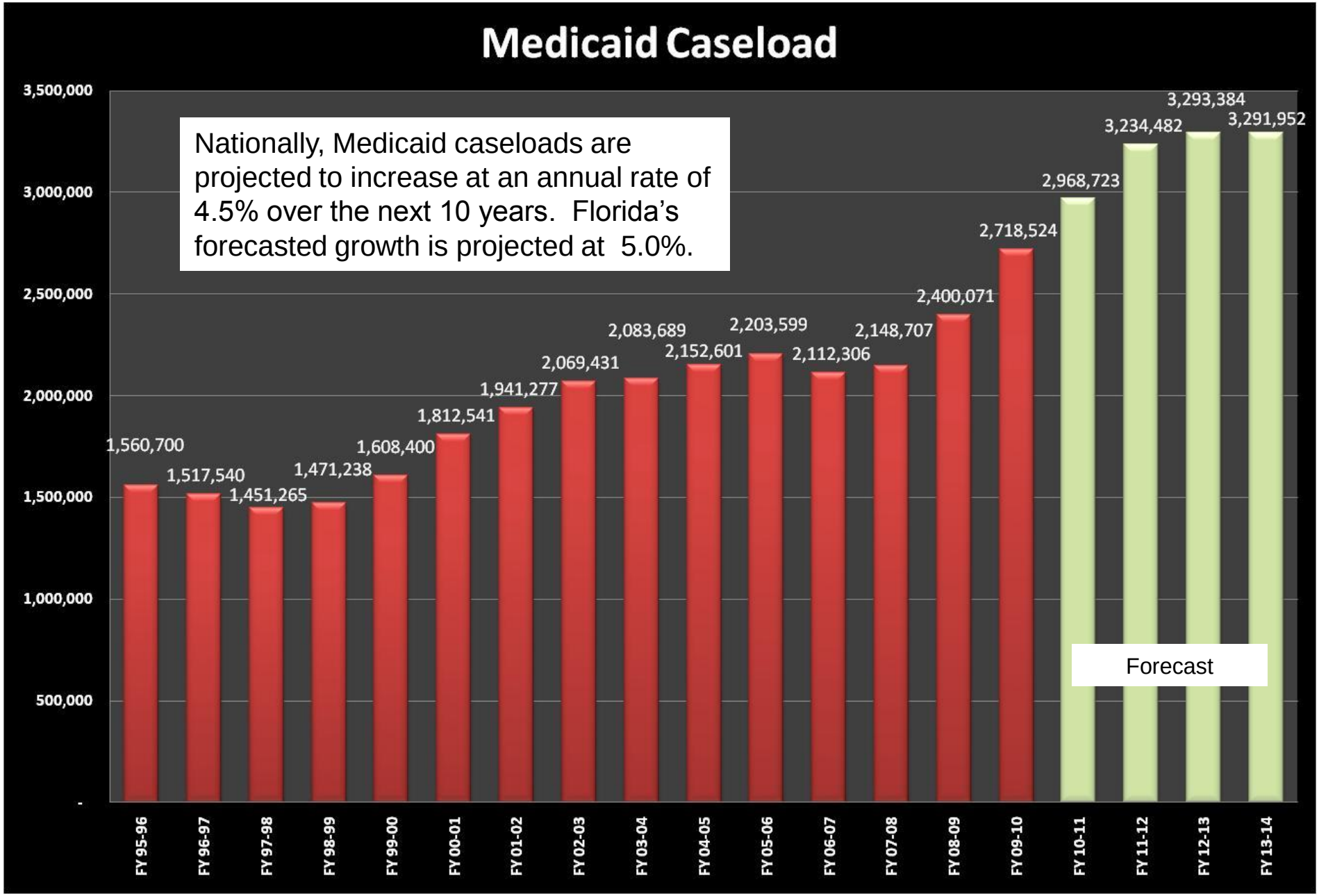
Revenue Gap to Expenditures...

GR Collection Growth	GR Expenditure Growth
5.2% over 25 years	6.8% over 25 years
4.2% over 20 years	5.6% over 20 years
3.3% over 15 years	3.8% over 15 years
1.7% over 10 years	3.4% over 10 years
-2.6% over 5 years	3.1% over 5 years

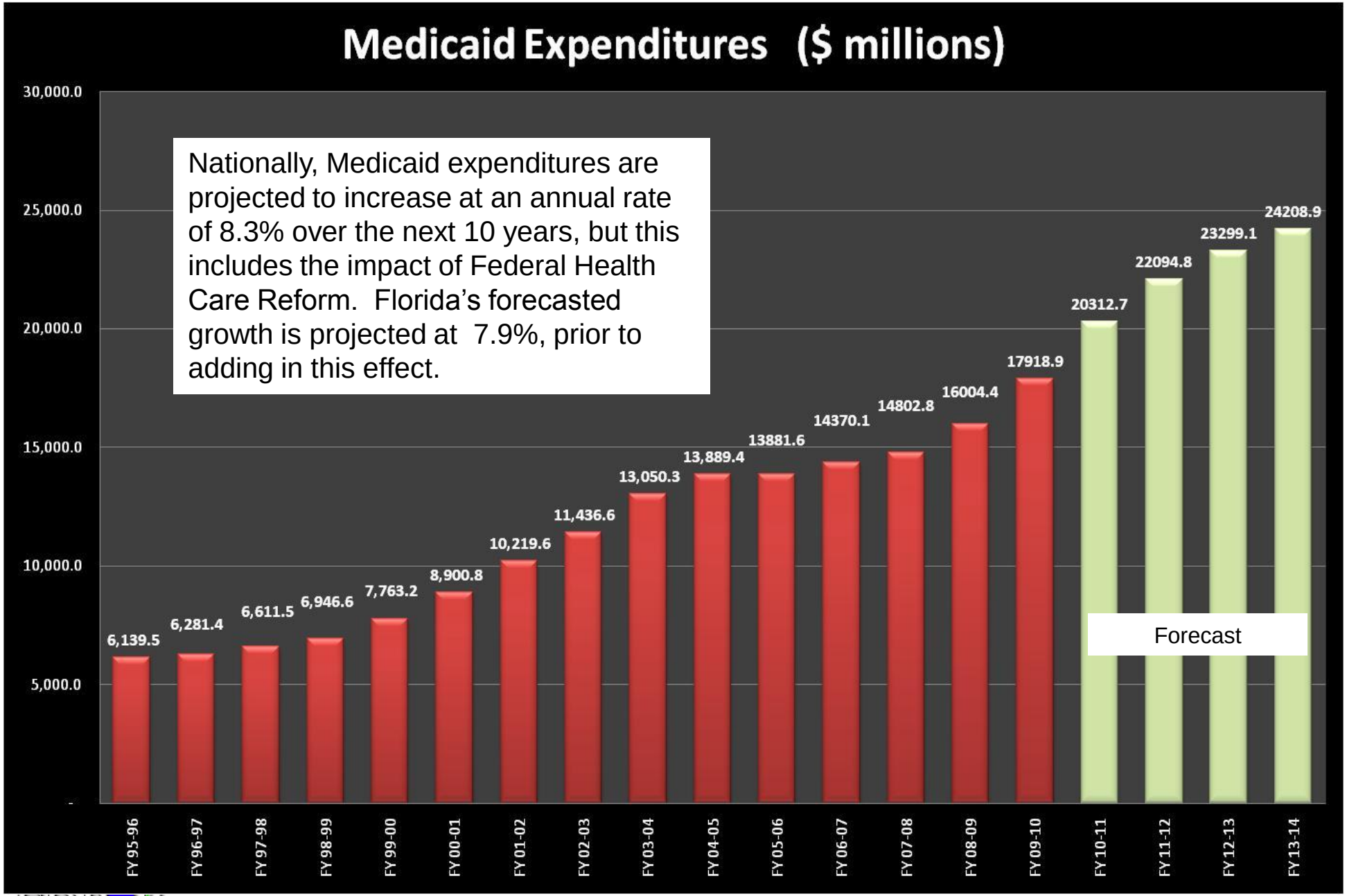
NOTE: Base Year = 2009-10

GR has been propped up by several one-time actions:

1. GR Build-Up from the Boom (windfall over the estimate)
2. Trust Fund Transfers in Multiple Years ($4.1 billion over 10 years)
3. Budget Stabilization Transfer of $1,072.4 million in 2008-09
4. Lawton Chiles Endowment Fund Transfer of $700 million in 2008-09


Medicaid Caseload
Nationally, Medicaid caseloads are projected to increase at an annual rate of 4.5% over the next 10 years. Florida's forecasted growth is projected at 5.0%.
3,500,000
3,000,000
2,500,000
2,000,000
1,500,000
1,000,000
500,000
-
1,560,700
1,517,540
1,451,265
1,471,238
1,608,400
1,812,541
1,941,277
2,069,431
2,083,689
2,152,601
2,203,599
2,112,306
2,148,707
2,400,071
2,718,524
2,968,723
3,234,482
3,293,384
3,291,952
Forecast
FY 95-96
FY 96-97
FY 97-98
FY 98-99
FY 99-00
FY 00-01
FY 01-02
FY 02-03
FY 03-04
FY 04-05
FY 05-06
FY 06-07
FY 07-08
FY 08-09
FY 09-10
FY 10-11
FY 11-12
FY 12-13
FY 13-14

Medicaid Expenditures ($ millions)



Medicaid Driver Grew...

Relative to the Summer Estimating Conference and the Long-Range Financial Outlook:

• FY 2010-11 Conf Adj...	$ 74.3 M
• FY 2011-12 Conf Adj...	$ 85.0 M
• Adj to Funding Assumption...	$ 169.0 M
Total Incremental Change	$ 328.3 M
Projected GR Cost in 2011-12	$5.5368 B

Budget Outlook...

- Currently, sufficient revenues exist to meet the appropriated budget for FY 2010-11. After the new forecast, a positive ending balance of $249.2 million is projected for the General Revenue Fund.
  - This compares to the 14 states that have already reduced their enacted budgets by more than $4 billion.

- In the Long-Range Financial Outlook released in September, the projected gap between available revenues and the cost of critical and other high priority needs was $2.5 billion for next year's budget.

- Based only on the Fall Estimating Conferences, the 2011-12 gap grew to $3.62 billion:
  - Another significant increase in Medicaid – on top of the one previously identified in the Long-Range Financial Outlook. Medicaid was already the single largest driver in next year's budget projections.
  - Reductions in key revenue forecasts and trust funds.

PS2

Public / Private Sector Solutions for America's Health Care Future

The Florida Rx Blueprint: Achieving Greater Savings For Florida's Taxpayers

A Project of PS2 Public/Private Sector Strategies for America's Health Care Future

Jeffrey R. Lewis, President

Technical Assistance Provided by Towers Watson Health and Group Benefits

January 12, 2011

Purpose of the Analysis

- To determine whether the State of Florida can implement a more efficient and cost-effective strategy regarding the purchase and management of prescription drugs

Current Contracts by Agency

Agencies	Pharmacy Vendor	Estimated Annual Spend	Comment
DOC	340B	$8,603,530	From DOC (12 months: Oct 2009 - Sept 2010)
	MMCAP	$65,413,291	Calculated as a difference of total plan cost and 340B
DOH	340B	$112,177,243	Annualized number (data provided for 10 months)
	Other	$14,800,454	Annualized number (data provided for 10 months)
	MMCAP	$27,799,990	Annualized number (data provided for 10 months)
APD (Sunland)	Omnicare	$774,897	Annualized data, based on top 50 brand and top 50 generic drugs for 10 months
APD (Tacachale)	Guardian	$2,641,433	Annualized data, based on top 50 brand and top 50 generic drugs for 10 months
DMS	Caremark	$208,727,811	12 months provided
AHCA	Magellan	$1,057,799,537	Annualized number (data provided for January - June 2009)
DCF - Florida State Hospital	MMCAP	$8,006,115	Annualized number (data provided for 9 months)
DCF - NE Florida State Hospital	MMCAP	$3,946,436	Annualized number (data provided for 9 months)
DCF - NFET			Not provided
DJJ	Diamond	$393,533	
Total		$1,511,084,270	

Recommendations – Potential Savings Opportunities

Recommendation	Estimated Savings	Estimated Timing to Start Realizing Impact of Savings			
	Total	Immediate	1-12 Months	12-24 Months	24+ Months
Removed legislated minimum dispensing fee requirement - Total	**$10,246,069**				
APD - retail only	$13,696			X	
DJJ - retail only	$9,509			X	
DSGI - Mail	$1,904,177		X		
DSGI - Retail	$8,341,892			X	
Leverage best-in-class discount pricing - Total	**$884,288**				
DOH	$665,372		X		
APD (Omnicare contract expires 6/30/11)	$218,916		X		
Coordinated PDL - all agencies	**$6,191,232**				X
Performance step therapy - DSGI	**$5,226,287**		X		
Preffered drug optimization - DSGI	**$8,112,354**	X			
Expand interagency agreements (340B pricing for HIV/STD Drugs)- DOC	**$7,200,000**		X		
Medicare opportunities - DSGI *					
Option A: Remove GAA Medicare-eligible retiree premium cap	**$45,900,000**				X
Option B: Increase co-pays for Medicare-eligible retirees	**$5,294,630**			X	
Option C: Implement EGWP Wrap	**$24,000,000 - $27,000,000**			X	
Option D: Discontinue Medicare-eligible retiree drug coverage	**$83,000,000**				X
Single formulary PDL management - AHCA	**$60,000,000 - $100,000,000**				X
Specialty Drug Management - AHCA	**$9,000,000**		X		
Estimated Total Potential Savings	**$112,154,860 - $229,860,230**				

* Medicare opportunities are not additive. Options A, B and C could be implemented in any combination. The maximum savings is with Option D, discontinue Medicare-eligible retiree drug coverage which would eliminate the need for Options A, B or C. Option A

Potential Pharmacy Savings for the State of Florida

- The PS2 analysis has identified savings of up to $230 million dollars.
- The keys to achieving savings include:
  - Implementing a strategy focused on greater transparency to taxpayers
  - Employing a single prescription drug purchasing strategy
  - Maximizing managed competition
  - Pursuing an aggressive procurement and contract plan utilizing vendors that provide prescription drugs at the lowest price possible, with uncompromised quality
- Today, the State of Florida does not have an aggressive or consistent procurement and purchasing strategy regarding prescription drugs.
- Today, the State has allowed state agencies to work as silos, that is, independent purchasers of prescription drugs, and therefore is not leveraging its collective purchasing power in the marketplace.
- Combined, this means the State of Florida is spending more than it should.

Creating a Single State Agency or Division Solely Responsible for Procurement and Contracting

- Create a single State agency or division with the sole responsibility for procurement and contracting.
- Consolidating all procurement and contracting within one State agency or division ensures consistency, allows for staff to combine expertise and promotes greater knowledge across all state programs.
- The health care marketplace continues to evolve. When States are not experienced in the purchase and negotiation of prescription drug contracts with pharmaceutical manufacturers, wholesalers, group purchasing organizations (GPOs), PBMs (pharmacy benefit managers), etc., taxpayers lose!
- Since September 2003, the State of Florida/Department of Health has had a contract with the Minnesota Multi-State Contracting Alliance (MMCAP). MMCAP is a voluntary group purchasing organization operated by the State of Minnesota serving government-authorized healthcare facilities. The goal of MMCAP is to provide member organizations the combined purchasing power to receive the best prices available for pharmaceuticals, hospital supplies, and related products for the coordination of the purchase of more than $76 million in prescription drugs (brand name medications, generic drugs and Over The Counter (OTCs) medications in Florida.
- Cardinal Health serves as the MMCAP distributor.
- Based on discussions with the Department of Health, it became clear that either they did not have a copy of the MMCAP/Cardinal Health contract, or did not read it. Upon reviewing the contract, they would have realized that Cardinal Health is prohibited from directly contacting or discussing pricing strategies with any State employee or agency. Therefore, any cost savings ideas or programs that Cardinal Health may have cannot be brought to the State directly. Rather, they must obtain approval from MMCAP.
- If the State had a tough and thorough procurement, purchasing and contract team trained to ask the right questions and negotiate drug contracts, that team could have evaluated the MMCAP/Cardinal Health contract to determine whether it was in the State's best interest. That clearly did not happen.

Renegotiate the State MMCAP Contract

- The State contract with MMCAP should be immediately renegotiated to allow the State access to all vendors with the lowest prices on prescription drugs and other medical supplies – and the State should promote the idea that vendors should provide cost-saving strategies. In this case, the State's contract with MMCAP should specifically encourage Cardinal Health and any other vendor to have free and open access to State agencies, the legislature, etc.
- The MMCAP contract should be renegotiated and completed within the next 20 days.
- The Senate should consider holding a hearing and inviting other Group Purchasing Organizations (GPOs), including MMCAP, to testify – to better understand what other States are doing, their successes, any concerns, etc.

Reduce Dispensing Fees for Pharmacies and Eliminate Mail-Order Dispensing Fees

Possible Savings of more than $10 million

- The State of Florida requires State agencies to pay pharmacies $4.28 for each prescription filled at a retail pharmacy. The market rate is $1.25.
- In addition, the State pays a dispensing fee of $4.22 for prescriptions filled through a mail-order facility. The industry standard is to have no dispensing fees for mail orders; pharmacy management vendors typically own their own mail-order pharmacies and keep a larger margin for prescriptions filled at mail order, requiring no additional dispensing fee to cover their costs.

Maximizing Generic Drug Pricing

- The Department of Health and the Agency for Persons with Disabilities need to more aggressively negotiate the discounts they receive on the purchase of generic drugs.
- The market rate is about 74% – these are best-in-class discounts.
- The DOH averages about 65% and the APD is 16.4%.
- Obtaining/demanding greater discounts would result in savings of $884,288.

Creating a Florida Coordinated Preferred Drug List – Savings $6.2 Million

- Florida does not have a coordinated prescription drug purchasing strategy. This means that State Agencies are allowed to contract with the vendor of their choice to administer their prescription program. Each vendor has its own preferred drug list which means the State does not benefit from their collective purchasing power.
- Under this approach, all or most State Agencies would use a common formulary – a common list of drugs for treating specific infections or diseases.
- Generic Medications are the first line of treatment and the least expensive. Brand-name medications would be available, but the per drug copay would be higher.

Department of State Group Insurance Possible Savings—Part I

- The DSGI could save **$5.2 million** by requiring/mandating that all State employees, dependents and retirees use generic medications where available. And, if the doctor prescribes a brand-name medication and the patient wants that specific drug, the employee/dependent/retiree would pay the difference in cost between the brand and generic medication.
- The DSGI could save **$8.1 million** if it implemented an "optimized" preferred drug list. This means that fewer brand-name medications would be available and generic drugs would be mandatory.
- As discussed earlier, DSGI could save **$10.2 million** by reducing the dispensing fee it pays pharmacies from $4.28 to $1.25. There would be no dispensing fee paid for medications purchased through mail order.
- DSGI could increase prescription drug copays for Medicare-eligible retirees to $10 for generic drugs, $40 for brand-name medications and $60 for non-preferred medications. **This change would result in a savings of $5.2 million.**
- The Florida General Appropriations Act (GAA) protects Medicare-eligible retirees from large premium increases. However, in FY 2009-2010, the State only collected $123.3 million in premiums from Medicare-eligible retirees, while the cost to the State was $169.2 million, **or an unfunded deficit of $45.9 million. We recommend that the legislature remove the GAA cap.**

Department of State Group Insurance Possible Savings—Part II

- When the Medicare Modernization Act was passed by Congress, a provision was included called the Retiree Drug Subsidy program (RDS). The RDS provides the State with a subsidy to continue providing Medicare-eligible retirees and Medicare-eligible dependents with Rx coverage, rather than have the retiree pay to participate in Medicare Part D. The RDS subsidizes up to 28% of eligible prescription drug charges.
- In 2010, Congressionally passed Health Reform requires states to account for funded and unfunded liability for health care and prescription drug coverage for retirees. The law requires public employers to report not only the incurred costs for retiree benefits but also the actuarial value of future liabilities.
- To combat what Congress has done, the State should pursue the implementation of the 800 Series Employer Group Waiver Plan (EGWP). It would offer greater subsidies to the State than what it receives from the RDS, and it may **save the State between $15 and $27 million.**
- Alternatively, the State could simply decide that effective December 31, 2011 it will no longer provide a retiree Rx benefit . **By discontinuing prescription drug coverage for all state retirees, the state could save $83m**.

Reducing Medicaid Costs: Savings Ranging from $60-$100 Million

Implementation Would Take at Least 24 months

- Today, Medicaid allows Managed Care Organizations (MCOs) and Preferred Provider Organizations to create their own prescription drug formularies. In doing this, the State may be losing out on an opportunity to pool its buying power by developing one prescription drug formulary to obtain higher rebates, leading to greater savings.
- This also would ease the burden of the physicians in determining which formulary to use for each patient.
- Today, Specialty drugs (mostly high-cost injectable medications), are not outsourced to a third-party vendor who specializes in specialty drug management. By outsourcing this function, the third-party vendor could put controls in place that would reduce inappropriate utilization and look at promoting preferred products.

Expanding the Department of Corrections 340B Program

- The Department of Health agencies at the county level are all part of the State Agency.
- Many of the County agencies have developed Public Entity FQHCs through a co-applicant application between the FQHC governing board and the Department of Health.
- Several of these FQHCs are located in rural areas without a pharmacy and therefore do not have a 340B program.
- If the State sought managed competition to find a PBM to work with the DOC and the Department of Health to develop a statewide contract to provide a retail network and mail-order 340B pharmacy for these FQHCs/Departments of Health:
  - This would allow the State to create medical homes for the HIV population and optimize 340B for all needed drugs, not just HIV/AIDS drugs.
  - This would also allow the State to potentially treat inmates with other diseases such as diabetes, asthma, congestive heart failure, etc.