

**DEPARTMENT OF BUDGET AND MANAGEMENT
ACTION AGENDA**

BPW 4/04/2007

ITEM: 4-S (Cont)

MBE PARTICIPATION: 5% (see Requesting Agency Remarks below)

PERFORMANCE SECURITY: \$1,000,000 (See Requesting Agency Remarks)

INCUMBENT: Caremark PCS Health, LP
Scottsdale, AZ

REQUESTING AGENCY REMARKS: A notice of the availability of the Request for Proposals (RFP) was advertised in the *Maryland Contract Weekly*, on the website *eMarylandMarketplace.com*, and on DBM's website. In addition, a *Notice of Availability* describing the RFP was e-mailed directly to 77 prospective vendors, 24 of which were Maryland firms and 23 of which were MBEs. A copy was also sent to the Governor's Office of Minority Affairs.

Nine proposals were received and all were deemed reasonably susceptible of being selected for award (see Attachment).

An MBE goal of 5% of the administrative fees paid to the Contractor has been established under this contract. Most of the payments under this contract will be used by the Contractor to reimburse pharmacies for prescriptions purchased by covered individuals (e.g. employees, retirees, and their dependants). The only payments retained by the Contractor are the administrative fees. Accordingly, administrative fees are the only areas that the Contractor can use to obtain MBE participation. Since most activities to be performed by a Contractor for this service will be done by employees of the Contractor who also service other contracts (employees that process payment claims, handle customer telephone inquiries, etc.), it was determined that 5% MBE participation is the maximum that could reasonably be achieved.

The RFP did not specify a specific level or amount for a performance bond or other form of security. Instead, Offerors were asked to propose the level of security they would provide. The \$1 million performance bond proposed by Catalyst far exceeded the performance guarantees from any other Offeror.

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The RFP specified the technical ranking had more weight than the financial ranking in the overall award determination. Award is recommended to Catalyst Rx, Inc. ("Catalyst"). Catalyst was the highest technically ranked Offeror, was second in cost, and was determined to overall have the most advantageous offer. The evaluation committee for this procurement unanimously agreed on the technical ranking and determination that Catalyst proposed the most advantageous offer.

This contract provides for management and administration services to the State's Prescription Drug Benefits Plan ("Plan") and management and administration services for the Maryland Rx Program, a purchasing pool for pharmacy benefit management services created by State Personnel & Pensions Article §2-502.1. The Plan covers the cost of approved prescription drugs for enrolled participants, subject to certain co-payments and limits.

This contract will replace the current contract, which expires on 6/30/2007. Because there is a need to transition to this contract, work by the new Contractor will begin immediately upon approval by the Board. However, no payments will be made to the Contractor until after 7/1/2007. The immediate start date is for the purposes of transition only and will allow adequate time for the Contractor to participate in employee/retiree open enrollment activities beginning in April, 2007, to issue new ID cards to enrollees prior to 7/1/2007, and to provide targeted member communications to minimize disruption to enrolled members. The incumbent contractor will continue to provide administrative and management services through 6/30/2007.

The Plan itself will remain basically unchanged. The Plan will continue to serve satellite agencies and individuals eligible for participation in the Consolidated Omnibus Budget Reconciliation Act (COBRA) Continuation of Coverage activity. This contract serves only the Prescription Plan and not the other group health plans offered by the State to its approximately 102,000 current members (employees and retirees) living in Maryland and across the United States and in foreign countries. When employees' and retirees' dependents are counted, over 200,000 individuals will be covered by this contract.

The Contractor, in fulfilling its contract responsibilities for the State Plan, will manage a national network of pharmacies, process prescription drug claims, manage a cost-efficient and therapeutic formulary, subcontract with a mail order pharmacy and specialty pharmacy network to offer greater service, engage in rebate negotiations and process rebates received from drug manufacturers, submit cost and enrollment information in support of the State's retiree drug

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coverage subsidy requests to the federal government, and conduct most day-to-day administration of the Plan's work. The changed formulary of the Plan caused by legislation passed after the original award recommendation and effective July 1, 2006, are incorporated into this contract.

This contract also provides other new features which include *pass-through pricing* and *full-disclosure* (collectively called *transparency* in the RFP). These new features require the Contractor to fully disclose all revenue streams and pass them through to the State.

In addition to the above new features, this contract is in compliance with the provisions of the State Personnel and Pensions Article, § 2-502.1. Consistent with § 2-502.1, the contract establishes the Maryland Pharmacy Purchasing Pool (called the "MD Rx Pool"). For the first time this contract may be used by employers who have employees in Maryland. It is hoped that the existence of the MD Rx Pool will encourage many Maryland local governments and employers to participate in this contract to either obtain lower rates than possible on their own, or for the first time to offer pharmacy benefits to employees. This will allow them to take advantage of built-in economies of scale due to the Maryland State employees and retirees program, which forms the core enrollment of the MD Rx Pool. The contract requires the Contractor to reduce its administrative fees to the State if specified participation thresholds are reached.

Like the prior contract, this contract provides drug utilization reviews (DURs). DURs are used to monitor eligibility, use, and to improve quality in the delivery of prescription drugs. DUR activities help control costs by: decreasing the number of prescriptions that aren't needed, decreasing inappropriate drug use, and persuading non-compliant physicians to conform to the Plan's guidelines.

Aside from performing administrative duties, an integral part of the scope of work in this contract is the inclusion of a network of pharmacies. The Contractor will continue to provide a sufficiently sized and dispersed network of pharmacies to serve State employees and retirees.

The Award Amount above is the estimated cost of both projected fixed fees (administrative fees) and projected claims (dispensing fees and drug ingredient costs paid to pharmacies minus rebates received from manufacturers) using set guarantees. A projected number of prescriptions and non-discounted claims to be processed were outlined in the RFP in a financial proposal evaluation model.

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Each vendor was asked to provide maximum fees for administration and dispensing and minimum rebates and guaranteed discounts on costs. This approach allowed a proper and equitable comparison among proposals, as shown in the Attachment. Claims costs, however, are not fixed, despite the use of guaranteed pricing points, and dependent on actual utilization by covered individuals in the Plan.

Since non-State participating plans in the MD Rx Pool pay all costs of their own participation (i.e. the administration fees and claims costs), the requested Award Amount for this Item is the estimated amount for only the Maryland Plan, covering State employees, retirees, their dependents and other participants required by law. The requested Award Amount and the 5 Year Price (financial offer amount) shown on the Attachment are different. The financial offer amount is based upon a model that was contained in the RFP, which was issued in October 2005. Prices were requested for discrete State fiscal years, from FY 2007 to FY 2011. Since, as described below, the award of this contract has been delayed for a year, the recommended contractor cannot perform during the FY 07. Also, the RFP did not request pricing for FY 2012. Accordingly, the Department seeks award to Catalyst for the four remaining fiscal years for which it provided pricing in response to the RFP.

The total actual amount to be paid to the Contractor will be a function of the actual enrollment in the Plan, actual number of prescriptions, and the cost of the drugs actually dispensed. The source of reimbursable funds for this contract comes from transfers from agency budgets.

This Item was first submitted to the Board as Item 1-S of the DBM BPW agenda of 4/5/2006, but was withdrawn because of a protest by CaremarkPCS, the Offeror that owns the incumbent Contractor, against the proposed award to Catalyst. Over a period of roughly six months four protests were filed by Caremark concerning this procurement. All four protests were denied by the Department. Each protest denial was then appealed to the Maryland State Board of Contract Appeals. Two separate evidentiary hearings, in September 2006 and January 2007, totaling nine days were held regarding these appeals. In a decision dated March 8, 2007 the Board of Contract Appeals denied all appeals by Caremark.

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During the pendency of the protests and appeals, the current contract (with the Caremark incumbent company) was extended twice, each for a period of six months. These two six month extensions encompass the FY07 plan year. At this time, in light of the opinion by the Board of Contract Appeals that this procurement was proper and legal, the Department requests that the Board approve the award recommendation to Catalyst, as was first requested on 4/5/2006.

FUND SOURCE:	100% Reimb. (See Requesting Agency Remarks)
APPROP. CODE:	F10A0245
RESIDENT BUSINESS:	Yes
MD TAX CLEARANCE:	07-0649-0001

DBM REMARKS: This Item first appeared on the DBM BPW agenda of 4/5/2006 as Item 1-S and was withdrawn. This Item also appeared on the DBM BPW agenda of 3/21/2007 as 18-S-Supplemental and was withdrawn.

Board of Public Works Action - The above referenced Item was:

APPROVED	DISAPPROVED	DEFERRED	WITHDRAWN
WITH DISCUSSION		WITHOUT DISCUSSION	

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ITEM: 4-S (Cont) **ATTACHMENT**

BIDS OR PROPOSALS (Cont):

Vendor	Technical Ranking	5 Year Price*	Financial Ranking	Overall Ranking**
Catalyst Rx, Inc. Rockville, MD	1	\$1,401,330,280	2	1
CaremarkPCS Health, LP Scottsdale, AZ	3	\$1,388,045,441	1	2
Pharmacare Management Services, Inc. Lincoln, RI	4	\$1,437,278,095	4	3
Walgreens Health Initiatives, Inc. Deerfield, IL	2	\$1,473,094,873	7	4
Aetna Pharmacy Management Middletown, CT	6	\$1,442,653,358	5	5
RESTAT West Bend, WI	7	\$1,459,613,710	6	6
Express-Scripts, Inc. Bloomington, MN	5	\$1,518,712,663	9	7
Well Point Pharmacy Management West Hills, CA	8	\$1,433,792,316	3	8
Prime Therapeutics, LLC Eagan, MN	9	\$1,508,583,948	8	9

* Note: Price was based upon a model in the RFP for evaluation purposes.

** Note: Technical Ranking had more weight than the financial ranking in the overall award determination.