



San Francisco Department of Public Health

Greg Wagner
Chief Financial Officer

City and County of San Francisco
London N. Breed
Mayor

MEMORANDUM

January 24, 2019

TO: Chair Hillary Ronen, and Members of the Rules Committee

FROM: Greg Wagner, Chief Financial Officer, San Francisco Department of Public Health *GN*

RE: Supplementary Information for Members of the Rules Committee regarding Item 5. 191237
Public Health Group Purchasing Organizations (GPO) for January 27, 2020

The purpose of this memorandum is to provide additional information for your consideration of the Department's proposed ordinance to amend Chapter 21A of the Administrative Code by revising Sections 21A.1 (Scope of Chapter) and Section 21A.2 (Membership in Group Purchasing Organizations).

Description of a Group Purchasing Organization (GPO) and Relationship to DPH

Since 1997, following the approval by the Board of Supervisors, the Administrative Code has authorized DPH to become a member of a single GPO and to use its purchasing programs. The current GPO is Vizient. Membership in Vizient enables DPH to employ a streamlined process for procuring goods and services, (relying upon the competitive bidding conducted by Vizient), reducing administrative burdens, facilitating improved quality of care, and saving DPH and the City millions of dollars annually. These savings are realized because a GPO is an entity that leverages the purchasing power of many member healthcare institutions (e.g. DPH) by pooling its members' purchasing power to obtain discounts on goods and services from suppliers with which the GPO contracts. A GPO conducts competitive bidding processes and negotiates/solicits lower prices from their participating vendors/suppliers to obtain optimal prices. Moreover, GPO suppliers pay a fee to the GPO based on the dollar value of procurement through the GPO, and the GPO provides a "Fee Share" to its members such as DPH. Over the past 5 years DPH has saved approximately \$5.0 million through this Fee Share.

Through the GPO, DPH enters into agreements with various suppliers and wholesale distributors (who are Vizient vendors) to obtain most of its required supplies, e.g. pharmaceutical or medical/surgical supplies/drugs/biologics. Through a Vizient distributor, the Department may place a single order, e.g. McKesson Corp., for a variety of necessary drugs, and the distributor will obtain the items via any number of manufacturers. The distributor will then deliver the supplies to DPH in a streamlined and timely manner. The distributor applies price discounts to DPH purchases based on the purchase volume.

Ordinance Revisions

From time to time, DPH proposes updates to the language in the ordinance to reflect changes in the industry. The last update to the ordinance was in 2015. The proposed amendment is both to clarify

language in the original ordinance, as well as to align the scope with healthcare industry standards to maximize the Department's flexibility to achieve cost savings. Changes include:

- Currently, under Administrative Code 21 A.2., DPH is authorized to join a GPO to obtain discounts on goods and materials, but the GPO is specifically identified and named: "University Healthcare Consortium" (UHC). UHC was purchased by Vizient and therefore the current GPO is Vizient and not the named GPO in the ordinance. As such, this reference would be cleaned up in the proposed amendment to become a generic reference, "Healthcare GPO".
- The proposed ordinance narrows DPH's membership from a *GPO* to a *Healthcare GPO*. The original intent of the legislation was for healthcare related purchases, so this reflects a clarification of the original language and not a change in DPH practice.
- Currently, under Administrative Code 21 A.2., DPH is only authorized to be a member of the GPO named in the ordinance. The proposed amendment would allow DPH to enter into a membership agreement with one or more healthcare GPOs. Many healthcare institutions, particularly larger institutions with diverse and often emergent needs, make the business decision to join multiple healthcare GPOs. The proposed ordinance will enable DPH to join a second healthcare GPO in the event that pricing and/or product/service availability makes this beneficial. DPH does not have immediate plans to join another GPO, but this change would allow the option if better terms or pricing become available.
- Finally, the proposed amendment will revise the current language of the Administrative Code to clarify that DPH is authorized to utilize all programs and services offered to members of a Healthcare GPO, including the purchase of commodities and professional services from a vendor or distributor that is under contract with the Healthcare GPO in which DPH is a member. Currently, the language of Administrative Code 21 A2 is ambiguous regarding DPH's ability to procure specific items that were awarded by the Healthcare GPO. The revised language clarifies DPH's authorization to access all commodities and services available through a distributor, as long as it is under contract with the same Healthcare GPO as DPH.

By way of example, DPH uses McKesson as a pharmaceutical distributor. McKesson has three avenues to obtain drugs to access both the lowest prices and the necessary product, including: (1) Vizient's negotiated "Covered" pharmaceutical items (where Vizient and the supplier have negotiated the price of each individual drug), (2) 340b Drug Pricing Program pricing, which is a federally mandated program that requires drug manufacturers to provide outpatient drugs to eligible healthcare entities at significantly reduced prices (DPH is an active 340b participant), and (3) Wholesale Acquisition Costs. Under the proposed ordinance, DPH would be authorized to purchase the pharmaceuticals obtained via any of these three distributor options, using this example. While this is consistent with DPH's current practice, the Department wishes to explicitly clarify its authority to purchase in this manner under the ordinance. This will ensure that DPH retains access.

The above summarizes the essential revisions to the current language of the Administrative Code. If you have any questions, please feel free to contact me. Additionally, I will be available at the Rules Committee meeting on January 27, 2020.