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CASE STUDY

VOL. 1 · NO. 2

AUGUST 29, 2007

SAINT LOUIS COUNTY, DRUGS, AND COMPETITIVE BIDDING: A PRIVATIZATION SUCCESS STORY

By David Stokes

Back in 2003, the Saint Louis County Department of Health was having serious problems. Foremost among them was the continued rising cost of providing health care to citizens at the three county-operated health clinics. Within the clinic system itself, one of the largest issues was the labor and cost it took to operate the health department's pharmacy. Rapidly rising

demands for pharmacy services were quickly stretching thin the department's budget and resources.

One Saint Louis County government pharmacy, located in the north of the county, operating with normal government hours, provided prescription drugs to thousands of county residents. In 2002, the county pharmacy filled 295,000 prescriptions

Chart 1: County Budget Totals

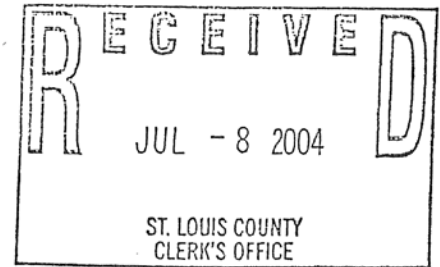
YEAR	PHARMACY BUDGET	PHARMACY ADJUSTED BUDGET	PHARMACY ACTUAL EXPENDITURES	PHARMACY RATE OF GROWTH
1997			\$2,320,160	
1998	\$2,496,105	\$2,496,105	\$2,671,307	15.1%
1999	\$3,091,067	\$3,091,067	\$3,298,649	23.5%
2000	\$3,230,398	\$3,950,344	\$5,868,247	77.9%
2001	\$4,201,452	\$4,200,179	\$5,163,611	-12.0%
2002	\$5,462,105	\$5,461,380	\$6,498,722	25.9%
2003	\$6,967,464	\$6,426,963	\$6,018,678	-7.4%
2004	\$7,277,235	\$7,277,235	\$5,564,301	-7.5%
2005	\$6,740,791	\$6,670,791	\$5,975,517	7.4%
2006	\$6,627,984	\$6,305,184	\$4,286,000	-28.3%
2007	\$5,749,312			
Pharmacy services were privatized in early 2003			1997-2006	84.7%
			1997-2002	180.1%
			2002-2006	-34.0%

Source: Saint Louis County annual budget reports

Figure 1: Letter from Saint Louis County Executive Charlie A. Dooley to the Saint Louis County Council



OFFICE OF THE COUNTY EXECUTIVE
SAINT LOUIS COUNTY
41 SOUTH CENTRAL AVENUE
SAINT LOUIS, MISSOURI 63105



CHARLIE A. DOOLEY
COUNTY EXECUTIVE

July 13, 2004

(314) 615-7016
TTY (314) 615-8411

Honorable Skip Mange
Chairman and Members of the
St. Louis County Council

Honorable Council Members:

In the attached correspondence, the Director of the Department of Health requests legislation to enter into contracts with Interlock Pharmacy Services, Inc. and Walgreen Company for the Department of Health's general and corrections pharmacy needs. The terms are July 1, 2004 through June 30, 2005.

She advises that Ordinance No. 21,429 authorized the County to contract with Interlock Pharmacy Services, Inc. and with Walgreen Company. Their terms ended June 30, 2004. She further advises that due to a rise in the drug cost for Interlock, the amount budgeted for this contract will be increased from \$1,081,000 to \$1,114,635, but the Walgreen contract will be decreased from \$5,923,000 to \$5,423,000. The Department of Health has sufficient funding allocated for pharmaceutical expenses to allow for these contractual changes.

It is my recommendation that the St. Louis County Council take the necessary legislative action authorizing the County to approve the above-mentioned contracts.

Sincerely,

A handwritten signature in cursive script that reads "Charlie A. Dooley".

Charlie A. Dooley
County Executive

CAD/esh
Attachment

at the three clinics, compared to 178,250 in 1997.¹ If financial stability was to return to the department, the cost increases in the pharmacy had to be brought under control. In a bold move, the county executive's office decided in the spring of 2003 to ask private companies to bid on providing pharmacy services to county citizens using the county's three health clinics. The results of this competitive bidding process and subsequent privatization effort have lowered costs for taxpayers and improved health care services for patients.

The Saint Louis County Department of Health is funded by a dedicated property tax, currently set at a rate of \$0.165 per \$100 of assessed valuation. It has been set at that rate since 1989, and it represents almost a third of the overall county property tax rate. While the dedicated tax has served Saint Louis County well, it may lead to budgetary shortfalls in years when property tax collections are down. State law forbids local entities that are funded by dedicated, voter-approved property taxes, such as the health department, from using general revenue funds that come from a variety of sources, particularly sales taxes, to offset shortfalls. One positive side effect of that state law is that it forces local governments to think creatively and efficiently about their budget issues rather than merely shifting tax money around whenever a need arises — no matter the original purpose or voter approval for that money.

Saint Louis County operates three county health clinics — two in North Saint Louis County and one in south county. The county is also responsible for the health care of inmates held in the county jail. In February 2003, in an effort

to control spiraling costs, Saint Louis County negotiated a contract with a local pharmacy company, RPH on the Go USA, Inc., to manage the county pharmacy at John C. Murphy Health Center. The contract was done on an emergency basis for a period of two months while Saint Louis County requested bids on providing pharmacy services to the three clinics and the jail. It received three proposals, two for the clinics and one specific to the jail's inmates.

Walgreens, the nationwide pharmacy giant, and LDI, a local pharmacy benefits firm that contracts with a network of independent pharmacies, both bid for the clinic pharmacy work, which represented the bulk of the budget and bid request. Saint Louis County selected Walgreens' bid of \$5,923,000 per year to provide pharmacy services to residents needing assistance from the health department clinics.

This is one case where the numbers really do tell the story. Before the pharmacy service was contracted out in mid-2003, the pharmacy budget had increased 180 percent between 1997 and 2002.² After the pharmacy service was contracted out, first to Walgreens and later to LDI, the pharmacy budget decreased 34 percent from 2002 to 2006. Over the past 11 years, the overall pharmacy budget has increased 148 percent, with the bulk of that increase coming in 1999 and 2000. During the same period of time, the overall health department budget has increased 55 percent. Without including pharmacy service in the calculations, however, the department's budget has increased 48 percent since 1997. Clearly, rampant spending growth in the pharmacy division

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Since 2003 ... the county has spent less than it budgeted on the pharmacy every year, even as those budgeted amounts continue to decrease each year, in response to the significant cost savings.

Chart 2: Saint Louis County Pharmacy Budget



Source: Saint Louis County annual budget reports

before 2003 had a significant effect on the budget throughout the department, using resources that could have gone to many other worthwhile programs.

Before pharmacy privatization in 2002, the county consistently spent much more than it had budgeted each year on pharmacy services. Since 2003, though, the county has spent less than it budgeted on the pharmacy every year, even as those budgeted amounts continue to decrease each year, in response to the significant cost savings. The accompanying graph of budget expenditures reveals this trend in a remarkable illustration of the efficiency of private industry. The amount shown for 2007 in this graph is the budgeted figure, while the actual amount spent will likely be much lower — resulting in even more substantial savings than noted above.

This downward cost trend has also continued with the jail's pharmacy contract. Interlock Pharmacy Services was the only initial bidder, and was awarded the

contract at a cost of \$1,081,000. By 2007, though, Diamond Pharmacy Services won the contract with a bid of \$800,000 — a reduction of 26 percent over five years. These cost savings were achieved in spite of the fact that it is more difficult to switch inmates to generic drugs than it is for the general public, because of the dangerous risks of side effects in such a sensitive place as a prison.³

How have the private companies fared in meeting the needs of Saint Louis County residents after taking over pharmacy operations? When the initial contract was up for renewal in August 2004, the county council held hearings to determine the program's effectiveness before approving its renewal. Along with the fact that the program had saved money for Saint Louis County taxpayers, the director of the County Health Department — at that time, Dr. Jacquelyn Meeks — stated in the hearing, "Overall services have dramatically improved.

Walgreens and Interlock are good partners and have provided good service and good value for the County.”⁴ Dr. Meeks later said that there had been “Very few complaints since Walgreens had been contracted with for pharmaceutical services.” Mr. Mike Agostino of Walgreens also spoke at the hearing, stating that the key to the cost savings was “the focus on providing generic drugs.” He added, “The clinics are better served with prescriptions than in the past,” and “... the prescriptions are better controlled and there is less waste.”⁵

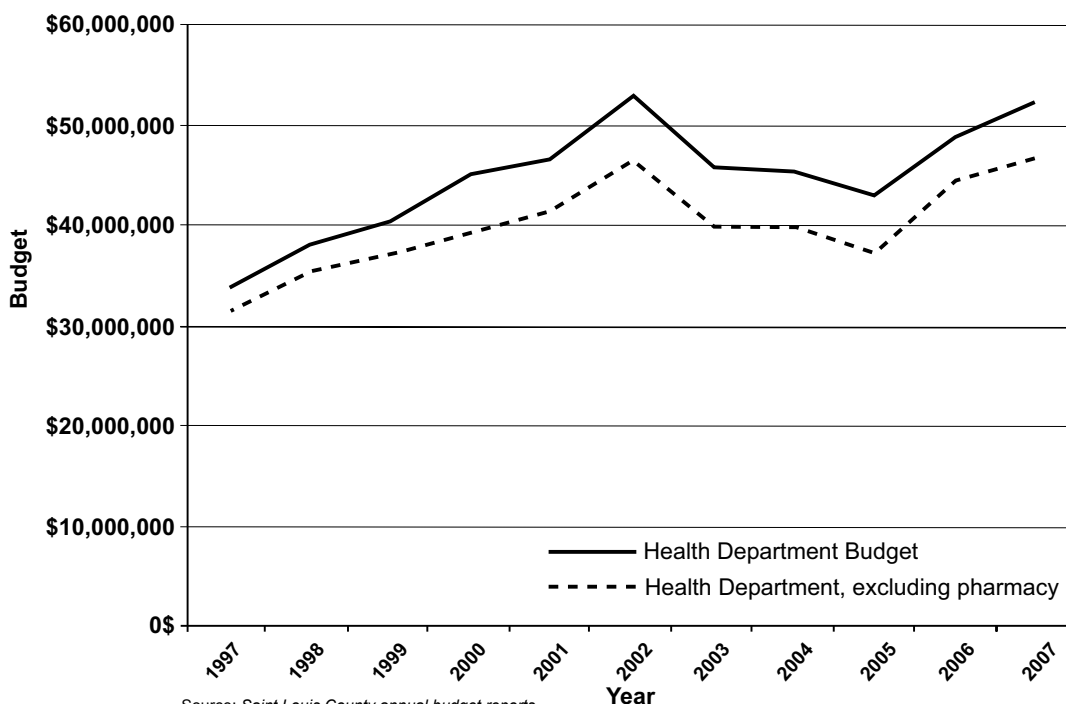
As a result of the bidding process and the contracts with Walgreens and Interlock, the number of county employees working for the pharmacy declined from 14 to two. The remaining two employees focus on more specific areas of pharmacy-related work, such as distributing vaccines, diabetic supplies, and family-planning methods to the three county health clinics.

One health department program that continued through the bid process and the contracts with Walgreens, Interlock, and LDI, was the county’s collaboration with Saint Louis College of Pharmacy to provide the county’s health clinics with pharmacists and students. That program began in 1998 and currently costs Saint Louis County just \$35,000 per year. It allows pharmacy students to gain valuable experience working in the clinics under supervision from a licensed pharmacist, also provided by the college, all while helping county residents in need receive the health care they deserve.

Walgreens did not just provide the same services to Saint Louis County residents for less money. After contracting out the pharmacy, county residents now had access to the numerous and convenient Walgreens locations instead of just one county-operated pharmacy. Most of those locations are open 24

The director of the County Health Department — at that time, Dr. Jacquelynn Meeks — stated in the hearing, “Overall services have dramatically improved. Walgreens and Interlock are good partners and have provided good service and good value for the County.”

Chart 3: Health Department Budget



In bipartisan fashion, county government brought significant cost savings, more options, and better services for patients who use its pharmacy system.

hours — the old county pharmacy was not. Walgreens also instituted a 1-800 phone number for the clinics and patients, and provided Saint Louis County with the ability to fill prescriptions in 13 languages. Those increased services and options are a major reason why the Saint Louis County Department of Health told the author that they have “No plans to change the program at this time.”⁶ To the health department’s great credit, it has recognized and encouraged changes that are working for the people of Saint Louis County.

Walgreens maintained its contract with Saint Louis County until 2006. Early that year, the contract was rebid and LDI won with a low bid of \$4,250,000. This bid was significantly lower than both Walgreens’ 2003 bid of \$5,923,000 and Walgreens’ revised 2004 bid of \$5,423,000. Under LDI, savings have continued and so has good service. The Saint Louis County Health Department does not track citizen complaints in total, but just as complaints against Walgreens were very low in 2004, according to Dr. Meeks⁷, it appears that complaints against LDI have been similarly low. LDI uses a modern system of phone, mail, and online ordering of prescription drugs for users of the county clinics. It has as a network of pharmacies involved in the county program to serve the needs of county residents who want to fill their prescriptions in person. Walgreens also accepts the LDI prescription card, so now patients of the county health clinics have more options than ever in filling their prescriptions. Saint Louis County has renewed the contract with LDI for 2007, and the ordinance authorizes further renewals for two more years, after which another bid process will be required.

In bipartisan fashion, county government brought significant cost

savings, more options, and better services for patients who use its pharmacy system. A Democratic County Executive, George “Buzz” Westfall, initiated the process, which was continued by his successor, fellow Democrat Charlie Dooley. A Republican-majority county council unanimously supported and passed the initial privatization proposals. When majority control of the council switched to the Democrats in 2007, support for pharmacy privatization continued. These improvements to citizen service and health care are the direct results of competitive bidding and privatization. That sounds like a prescription for good government that the rest of Missouri could learn from!

David Stokes is a policy analyst with the Show-Me Institute, a Missouri-based think tank.

CHARTS & FIGURES

Chart 1: County budget totals

Chart 2: Pharmacy budget trends

Chart 3: Health department budget trends

Figure 1: Letter from Saint Louis County Executive Charlie A. Dooley to the Saint Louis County Council

Figure 2: Saint Louis County Ordinance No. 21,992 — renewing authorization for the county’s pharmacy contract with Walgreens and Interlock

Additional relevant county documents can be downloaded from the Show-Me Institute website: http://www.showmeinstitute.org/publication/id.74/pub_detail.asp

NOTES

¹ *Saint Louis County annual budget reports.*

² *See accompanying Chart 1.*

³ *St. Louis County Council Committee of the Whole Report, page 3.*

⁴ *Ibid, page 2.*

⁵ *Ibid, page 2.*

⁶ *E-mail to author, July 12, 2007.*

⁷ *Saint Louis County Council Committee of the Whole Report, page 3.*

Figure 2: Saint Louis County Ordinance No. 21,992 — renewing authorization for the county's pharmacy contract with Walgreens and Interlock

BILL NO. 280, 2004

ORDINANCE NO. 21,992, 2004

Introduced by Councilmembers Mange, Erby, O'Mara
and Quinn

AN ORDINANCE

AUTHORIZING THE COUNTY EXECUTIVE TO EXECUTE
A CONTRACT WITH WALGREEN CO., AND A CONTRACT
WITH INTERLOCK PHARMACY SERVICES, INC.,
PERTAINING TO PHARMACY SERVICES FOR THE
DEPARTMENT OF HEALTH.

BE IT ORDAINED BY THE COUNTY COUNCIL OF ST. LOUIS COUNTY,
MISSOURI, AS FOLLOWS:

SECTION 1. The County Executive, on behalf of St. Louis
County, is authorized to execute a contract with Walgreen Co.,
for general pharmacy services for the Department of Health.

SECTION 2. The contract authorized in Section 1 shall
provide for Walgreen Co., to provide general pharmacy services
for the Department of Health; for a one-year contract beginning
July 1, 2004 and ending June 30, 2005; for payment in an amount
not to exceed Five Million Four Hundred Twenty-Three Thousand
Dollars (\$5,423,000.00); and for such other terms and conditions
as are approved by the County Counselor.

SECTION 3. The County Executive, on behalf of St. Louis
County, is authorized to execute a contract with Interlock
Pharmacy Systems, Inc., for pharmacy services for the
corrections pharmacy needs of the Department of Health.

SECTION 4. The contract authorized in Section 3 shall
provide for Interlock Pharmacy Systems, Inc., to provide
corrections pharmacy services for the Department of Health; for
a one-year contract beginning July 1, 2004 and ending June 30,
2005; for payment in an amount not to exceed One Million One
Hundred Fourteen Thousand Six Hundred Thirty-Five Dollars
(\$1,114,635.00); and for such other terms and conditions as are
approved by the County Counselor.

ADOPTED: AUGUST 31, 2004

SKIP MANGE
CHAIRMAN, COUNTY COUNCIL

APPROVED: SEPTEMBER 1, 2004

CHARLIE A. DOOLEY
COUNTY EXECUTIVE

ATTEST: JEANETTE O. HOOK
DEPUTY ADMINISTRATIVE DIRECTOR

SHOW-ME INSTITUTE POLICY AREAS

TAXES

Our economy works better when the tax system is simple, fair, and lets workers keep more of the money they earn. Show-Me Institute scholars study the impact of tax and spending policies, and develop reforms that will give us more for our tax dollars and spur faster economic growth.

EDUCATION

The latest education research confirms what common sense has always told us: Kids learn better when their parents have more choices. The Show-Me Institute studies how to empower parents by expanding educational options and providing them with better information, so that every child can attend a school that best meets his or her unique needs.

CORPORATE WELFARE

From eminent domain abuse to subsidies and tax breaks for the powerful and well-connected, government officials often try to pick winners and losers in the market. The Show-Me Institute develops policy recommendations to protect property rights and promote economic growth without caving in to demands for corporate welfare. Secure property rights encourage investment and entrepreneurship. Trying to create economic success through government intervention is a formula for failure.

HEALTH CARE

The standard employer-based model for health insurance leaves a remarkable number of people out. The Show-Me Institute highlights the ways that a consumer-driven, market-based model for coverage can help more people get the care they need while taking ownership for their own health and lifestyle decisions.

PRIVATIZATION

Many government services can be provided more effectively, and at a lower cost, by the private sector. When public services are provided by private industry, economic incentives and accountability provide a critical feedback loop that is largely absent in government bureaucracy. Show-Me Institute scholars analyze public programs to determine how taxpayers can benefit from market-based alternatives.

RED TAPE

One thing that government officials do well is establish barriers to market innovation and erect hurdles for entrepreneurs to clear. The Show-Me Institute is committed to showing how burdensome regulations stand in the way of economic growth and individual prosperity. Market solutions lose their strength when bound by red tape.



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