

County of Santa Clara
Office of the County Executive
Procurement Department



CE06 102009

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Procurement Manager
Reviewed by: Roslyn Fuller
Assistant Director of Procurement

DATE: October 20, 2009

TO: Board of Supervisors

FROM:

A handwritten signature in black ink, appearing to read "Jenti Vandertuig".

Jenti Vandertuig
Director of Procurement

SUBJECT: Acquisition of Pharmacy Distribution and Related Services.

RECOMMENDED ACTION

Consider recommendations relating to pharmacy distribution and related services. Possible action:

- a. Approve delegation of authority to Director of Procurement, or designee, to negotiate, execute, amend, terminate, and take any and all necessary or advisable actions regarding Agreement No. 5500001401 with Cardinal Health, Inc. (Cardinal Health) relating to providing pharmacy distribution and related services in an amount not to exceed \$367,870,073 for the period July 1, 2005 through June 30, 2010, following approval by County Counsel as to form and legality, and approval by the Office of the County Executive. Delegation of authority shall expire on June 30, 2010.
- b. Approve delegation of authority to Director of Procurement, or designee, to issue a solicitation relating to providing pharmacy distribution and related services for a three-year period with an option to extend for two additional years. Delegation of authority shall expire on June 30, 2010.

FISCAL IMPLICATIONS

There is no fiscal impact on the General Fund as a result of this action. Santa Clara Valley Health and Hospital System (SCVHHS) will utilize funds from their approved budget for these purchases.

CONTRACT HISTORY

In May 2004, the Procurement Department conducted a comprehensive solicitation process in which an RFP was posted on the County's internet web site and mailed to known suppliers including AmerisourceBergen Corporation, Cardinal Health, and McKesson Corporation. The RFP called for pharmacy distribution and related services as well as automation equipment for a central refill pharmacy (outpatient automation) and for the pharmacy at Santa Clara Valley Medical Center (inpatient automation). As the result of the solicitation process, on August 2, 2005, the Board of Supervisors awarded a contract with Cardinal Health relating to providing pharmacy distribution and related services in an amount not to exceed \$362,870,073 for the period July 1, 2005 through June 30, 2008 with two optional one-year renewals. Subsequent amendments were executed to extend the term of the agreement through June 30, 2010 and for administrative and business process changes.

REASONS FOR RECOMMENDATION

SCVHHS uses the Agreement with Cardinal Health for the distribution of pharmaceuticals. SCVHHS has a continued need for pharmaceutical distribution and related services. The current Agreement with Cardinal Health has a total value not to exceed amount of \$362,870,073 with an expiration date of June 30, 2010. As of July 31, 2009, according to the Pharmacy, SCVHHS has spent \$299,370,934.77 with Cardinal Health for pharmaceutical distribution and related services. It is anticipated that SCVHHS may require an additional \$5,000,000 to cover purchases during the remaining contract period through June 30, 2010. An increase of the total contract value of the current contract is necessary to allow for SCVHHS to continue purchasing pharmaceuticals.

The current contract will reach the five-year term by June 30, 2010. The market research has proven that there is competition which warrants a solicitation process. Upon completion of the new solicitation, the Procurement Department will submit the contract to the Board for execution. If the solicitation process is completed and a subsequent contract awarded prior to the expiration date of June 30, 2010, the County may terminate the current contract with ninety (90) days written notice to Cardinal Health.

The current agreement with Cardinal Health has a not to exceed amount of \$362,870,073 which exceeds the \$2,000,000 signature authority of the Director of Procurement. Therefore, delegation of authority to the Director of Procurement, or designee, to increase the total not to exceed amount is recommended.

The resulting agreement based on a new solicitation is projected to have a contract value exceeding the \$2,000,000 signature authority of the Director of Procurement. Therefore, delegation of authority to the Director of Procurement, or designee, to issue the solicitation is recommended.

BACKGROUND

SCVHHS is comprised of an acute care public teaching hospital - Santa Clara Valley Medical Center (SCVMC) - as well as Ambulatory and Community Health Services (ACHS) outpatient services, Custody, Public Health, Mental Health and Drug and Alcohol Services. SCVMC is a 524-bed acute care public teaching hospital affiliated with Stanford University Medical School and provides a full range of inpatient, emergency, rehabilitation, neonatal, intensive care, high-risk maternity care, psychiatry, pediatric intensive care, and burn intensive care services. The Ambulatory outpatient services include both primary and specialty clinics located not only at SCVMC, but also at satellite facilities located throughout the County. SCVMC has an average daily census of approximately 343 patients. Annual outpatient visits are approximately 717,000. It is important to ensure continuity supply of pharmaceuticals to meet the needs of patients. Under this Agreement, SCVHHS purchases from Cardinal Health nationally branded prescription and generic

prescription pharmaceuticals and other nutritional supplements and over the counter pharmaceutical for delivery directly to various sites. The medications carried under this Agreement are essential for providing medication-related care for the purpose of achieving definite outcomes that improve a patient's quality of life.

Pricing in pharmacy distribution is in the form of a cost of goods markup or markdown. Smaller customers may pay a positive markup for distribution service but large facilities such as SCVHHS typically receive a discount off the acquisition cost. This discount depends on purchase volume and payment terms. SCVHHS currently spends about \$73,600,000 annually through the current contract. Under the current agreement with Cardinal Health, SCVHHS' cost of goods discount is 3.0% at the payment term of net 15 days. SCVHHS' move to net 15 day payment term from the standard net 30 payment term is facilitated by the functionality in SCVHHS materials management system coupled with the County's ability to electronically transfer funds to vendors.

CONSEQUENCES OF NEGATIVE ACTION

SCVHHS will not have the benefit of provision for pharmacy distribution and related services.