



March 14, 2018

The Honorable Richard Pan, MD
 Chair, Senate Budget Subcommittee #3
 State Capitol, Room 5019
 Sacramento, CA 95814

The Honorable Joaquin Arambula, MD
 Chair, Assembly Budget Subcommittee #1
 State Capitol, Room 2160
 Sacramento, CA 95814

Re: 2018-19 State Budget – REJECT Governor’s Proposal to Eliminate 340B Drug Discount Program from Medi-Cal

Dear Chair Pan and Chair Arambula:

The Governor’s proposed 18-19 State Budget contains a proposal to fully eliminate the 340B Drug Discount Program from Medi-Cal fee-for-service (FFS) and managed care. On behalf of the organizations listed below we write you today to share that this proposal will have a devastating impact on California’s safety net providers– harming low-income, vulnerable communities and populations, by eliminating a vital discount drug program in Medi-Cal.

We respectfully urge the committee to reject the Administration’s proposal and request that DHCS engage stakeholders to develop systems for the State to ensure program integrity and full compliance with Federal requirements.

340B Program in California Today

Congress created the 340B Drug Discount Program (“340B”) in 1992 with the intention of allowing eligible health care providers, to purchase outpatient drugs at a substantial discount “to stretch scarce Federal resources as far as possible, reaching more eligible patients and providing more comprehensive services.”¹ Eligible providers are known as “covered entities” and the discounts come

¹ House Energy and Commerce Report, H. Rep. No. 102-384, Pt. 2, at 12 (1992).

from pharmaceutical manufacturers. In California, 340B has been highly successful, enabling providers like FQHCs, Critical Access Hospitals, public health care systems, children's hospitals and other safety-net providers with the ability to serve more patients with more comprehensive services and provide drugs at a lower cost. Providers can utilize the 340B discounts on all eligible patients in the outpatient setting, including uninsured, Medi-Cal and patients with commercial insurance.

Budget Proposal Would Dismantle the 340B Program in California

The change proposed in the Administration's FY 2018-19 Budget will eliminate the 340B Drug Discount Program in Medi-Cal fee-for-service and Managed Care. The Department of Health Care Services has cited that this proposal is needed to come into compliance with federal 340B regulations. We disagree with that assessment. Federal law does not require elimination of 340B in Medicaid, but rather that states have systems in place to identify and track 340B claims.

We support the State's goal to achieve compliance while also capturing appropriate drug rebates. This brings in much needed revenue to the Medi-Cal program. As previously stated, however, the solution proposed to achieve compliance goes too far. It wrongly assumes that there are no models that can also achieve its goals. We believe that DHCS' goal can be achieved with a more targeted solution while still allowing 340B drug discounts in the Medi-Cal program.

Who Will Be Impacted?

If program changes are pursued, millions of Californians receiving care at the following institutions, all of whom are federally defined 340B covered entities, will be impacted:

- Cancer Hospitals
- Children's Hospitals
- Critical Access Hospitals
- Disproportionate Share Hospitals
- Public Health Care Systems
- District Hospitals
- Federally Qualified Health Centers
- Hemophilia Diagnostic Treatment Centers
- Ryan White HIV/AIDS Programs
- Sole Community Hospitals
- Sexually Transmitted Disease Clinics
- Title X Family Planning Clinics
- Tribal/Urban Indian Health Centers
- Tuberculosis Clinics

How Will Providers and Patients Be Impacted?

The discounts providers receive from the pharmaceutical industry through the 340B program support providers' efforts to improve care for all patients, including offering specialized programs for some of our most vulnerable Medi-Cal populations that rely on the State's safety-net. These services include:

- o Extended hours of operation for community clinics and health centers.
- o HIV clinics that include a full range of health and mental health services for patients.
- o Hepatitis C clinics; safety net centers of excellence that provide lifesaving, curative treatments for Medi-Cal patients with hepatitis C.
- o Post-operative services, including "meds to beds" programs that allow patients to be discharged from major operations, such as cardiac surgeries or organ transplants, with critical

medications needed for proper recovery, and ensure that patients receive necessary follow-up with pharmacists.

- Specialized treatments at infusion clinics, such as those provided to patients with congestive heart failure, hemophilia, multiple sclerosis and cancer.
- Hiring case workers for individuals experiencing homelessness and additional support staff to address complicated care needs.
- Increased access to specialty care through expanded transportation services to patients without reliable transportation.
- Expanded pharmacy access for Medi-Cal and uninsured patients so that pharmacies are available throughout local communities.

The elimination of 340B discounts in Medi-Cal will require providers to purchase drugs at much higher prices. Consequently, the increased pharmacy costs could force providers to scale back many of these essential safety net services including reduced staffing, limit hours and facilities, and limit access to pharmacies. For some services that require costly drugs – such as cancer infusion and Hepatitis C treatment - providers could be forced to eliminate these programs all together.

Wrong Time, Wrong Direction

At a time when our health care programs are facing incredible threats at the federal level, stability in state policies and regulations that support California's safety-net institutions and programs are needed now more than ever. Although the repeal of the Affordable Care Act (ACA) and Medicaid entitlement reform did not move forward last year, we expect continued pressure to reduce Medicaid costs and disrupt the ACA.

Strengthening 340B in California

For these reasons, we implore you to take a strong stand to support our safety-net by rejecting the trailer bill language and directing the Department to work with stakeholders to develop an administrative solution to ensure program integrity. Given the significant policy impact this proposal would have on safety net providers and the lack of identified state budget savings, we request this issue be rejected by the budget subcommittee.

Working together, we can build a system to ensure the state receives Medicaid drug rebates, and communities and patients will continue to receive the benefits from covered entities participating in the 340B Drug Discount Program.

We thank you in advance for considering this urgent request to support California's health care system. With your leadership, we know California will continue to lead our nation in providing for the health of

all our people. If you have any questions, or would like to schedule a time to meet regarding this critical matter, please feel free to contact Meagan Subers at (916) 227-2666, Barbara Glaser at (916) 552-7559, or Terri Thomas (916) 325-1010.

Sincerely,

Alameda Health Systems
Alliance of Catholic Health Care
APLA Health
California Association of Public Hospitals and Health Systems
California Children's Hospital Association
California HIV Alliance
California Hospital Association
California Pharmacists Association
California Psychiatric Association
California Rural Indian Health Board
California State Association of Counties
CaliforniaHealth+ Advocates
California Consortium for Urban Indian Health
Children's Specialty Care Coalition
County Behavioral Health Directors Association
County Health Executives Association of California
District Hospital Leadership Forum
Loma Linda University Health
Los Angeles LGBT Center
Mental Health America of California
San Francisco AIDS Foundation
SEIU California
The City and County of San Francisco
The County of Monterrey
The County of Ventura
The County of Riverside
The County of Santa Clara
Urban Counties of California

Cc: The Honorable Chair and Members, Senate Budget and Fiscal Review Subcommittee No. 3 on Health and Human Services
The Honorable Chair and Members, Assembly Budget and Fiscal Review Subcommittee No. 1 on Health and Human Services