

Tab 2-7



APR 1 2004

Dear Hospital Executive:

This letter provides information about two provisions in the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA) which could lower the prices your hospital now pays for drugs. One provision exempts inpatient drug prices from best price reporting for drug purchases made by disproportionate share hospitals (DSHs) participating in the drug pricing program established by section 340B of the Public Health Service Act. The other raises the disproportionate share adjustment percentage cap for small rural and urban hospitals. This provision may make your hospital eligible to participate in the 340B drug pricing program.

Section 1002 of the MMA, "Clarification of Inclusion of Inpatient Drug Prices Charged to Certain Public Hospitals in the Best Price Exemptions for the Medicaid Drug Rebate Program," amends the section of the Medicaid Rebate law (section 1927(c)(1)(C)(i)(I)) of the Social Security Act that specifies which drug prices are to be excluded from the quarterly best price reported by drug manufacturers to the Center for Medicare & Medicaid Services (CMS). The amendment adds inpatient prices charged to DSHs participating in the Section 340B drug pricing program to the list of exemptions. This provision was effective on December 8, 2003.

Section 402 of the Act, "Enhanced Disproportionate Share Hospital (DSH) Treatment for Rural Hospitals and Urban Hospitals with Fewer than 100 Beds," changes the DSH adjustment formula for a hospital that is not a large urban hospital to the same adjustment formula used for large urban hospitals, subject to an overall cap of 12%. Rural referral centers are not subject to the cap. If this new adjustment process results in an adjustment percentage for your hospital that is greater than 11.75, your hospital may be eligible to register as a covered entity authorized to purchase outpatient drugs at 340B prices. The actual adjustment percentage for your hospital will be determined by the CMS.

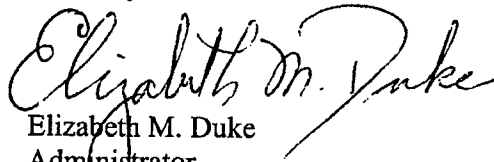
To participate in the 340B program a DSH must meet the following criteria, as specified by section 340B(a)(4)(L) of the Public Health Service Act:

- Be owned or operated by a unit of State or local government, be a public or private non-profit corporation which is formally granted governmental powers by a unit of State or local government, or be a private non-profit hospital which has a contract with a State or local government to provide health care services to low-income individuals who are not entitled to benefits under title XVIII of the Social Security Act or eligible for assistance under the Medicaid State plan;
- For the most recent cost reporting period that ended before the calendar quarter involved, had a disproportionate share adjustment percentage (as determined under section 1886(d)(5)(F) of the Social Security Act) greater than 11.75 percent or was described in section 1886(d)(5)(F)(i)(II) of such Act; and
- Does not obtain covered outpatient drugs through a group purchasing organization or other group purchasing arrangement.

If your hospital now meets these criteria, it is easy to register as a covered entity authorized to purchase covered outpatient drugs at 340B prices. Visit our Pharmacy Affairs web site (<http://bphc.hrsa.gov/opa>), click on "Legal Resources," download the appropriate form for your type of DSH, and submit the necessary documentation to the Pharmacy Affairs Branch, 4350 East West Highway, 3rd Floor, Bethesda, MD 20814.

If you need any advice or technical assistance to determine how best to proceed, contact the HRSA's Pharmacy Affairs Branch Pharmacy Services Support Center at 1-800-628-6297.

Sincerely,


Elizabeth M. Duke
Administrator