

TO: Jack Kramer
FROM: Carlos Ortiz
RE: **March Government Affairs Update**
DATE: April 14, 2003

4/14
FYI -
given to
Jack
Betty

The following is an update for the month of March and most of the first quarter of 2003.

Medicaid

Most of the Government Affairs activities for the first quarter have occurred in the Medicaid area:

- Connecticut – The Governor has proposed a reduction in both the dispensing fee from \$3.85 to \$3.50, a reduction in product cost reimbursement from AWP-13.5% to AWP-12%, a new state MAC list, and implementing a co-pay of \$2.00. **All of this combined would impact CVS approximately \$1.5 Million.** We are working with the legislature to eliminate the new co-pay, the reduction in product cost reimbursement, and to get the dispensing fee back up to \$3.65. The pharmacy community is contemplating a lawsuit on the MAC list reduction.
- Massachusetts – The proposed reduction in reimbursement from a current WAC+6% to WAC+5% and implementing a new MAC list, was put on hold due to a Temporary Restraining Order issued by the US District Court as the result of legal action by the pharmacy community. This week we will also file a lawsuit against the state on the \$1.30 provider tax. We are going to try and get another TRO or have the provider tax funds (due May 1st) put into an escrow account in case we prevail in our legal action.
- Michigan – The state is proposing another provider tax to generate savings of \$18.9 Million. However, unlike MA they are working with the provider community so that the tax will have no impact. I am a member of a subcommittee that is drafting legislative language to try and insure we are NOT impacted. Jim Smith is a member of a subcommittee that is working on a reimbursement model that will insure the same thing.
- New Jersey – The state has proposed pharmacy Medicaid reimbursement reductions totaling \$55 Million. **The impact to CVS will be over \$5 Million.** I am working within a coalition to try and come up with other cost saving alternatives. We have several but they all impact the pharmaceutical manufacturers and in NJ they are very politically powerful. However, the new Governor and the

Assembly Democrats are not as deferential to PhRMA as previous administrations. We are hopeful.

- New York – The state has proposed reductions in Medicaid and Senior Program (EPIC) that would total over \$185 Million. **The impact on CVS would be over \$16 Million.** The reductions would be from a current AWP-10% to AWP-15% and an increase in the co-pay from \$ 0.50/\$2.00 to \$ 1.00/\$3.00 for generics and brands. We have a potential cost saving method that would not impact any of the provider. It's called Medicare crossover billing. Medicare pays for some drugs. For Medicare eligible Medicaid recipients those prescriptions should be billed to Medicare. We are working hard to educate legislators about this process and convince them that it will achieve the necessary savings.

Other Legislative Issues

- IN, MI, MA, NY, PA, and RI have all proposed new Business taxes. Some are calling them "loop hole closings". I am working with Mike Golub to try and mitigate some of these taxes. I think we will have some success in IN, MI, NY and RI.
- In RI there is likelihood that a minimum wage increase will be enacted. This increase could impact the tax credit we receive for creating job which pay over 150% of minimum wage. Working with Joe Walsh, Mike Golub has drafted language that would negate the negative impact on the tax credit of a minimum wage increase.
- In RI due to some infighting between House and the Senate, both the "Any Willing Provider" and the Canadian Importation legislation, were passed by the House. I feel fairly confident that we will be able to kill both pieces of legislation in the Senate.
- Almost every state has some legislation dealing with prescription errors. Most would mandate reporting prescription errors to the Board of Pharmacy and would not protect the reports from discovery. We are working hard to defeat all of these types of legislation.

Boards of Pharmacy

- We have submitted the names of several candidates and I am working hard to try and secure their appointments. The candidates include Sue Farida in Michigan, Ayme DePaz in New Jersey, and Madeline DiMaria in New York.
- In Rhode Island I have been told that Susan DelMonico will be appointed to the Board of Pharmacy.

PAC

- PAC solicitation letters went out to all BPC members and Officers last week. This week letters will go out to all Director level associates. Hopefully, next week letters will go out to other monthly salaried associates, pharmacists and store managers.
- This year people who have not previously contributed to the PAC will be offered the opportunity to contribute and have CVS match their contribution with a contribution to a charity of their choice (please see attached PAC solicitation form).
- Current balances in the 3 PACs are on the attached sheet.

Government Affairs Financial Overview

Please refer to the attached overview of our 2003 budget vs. 2003 actuals and the corresponding line detail, broken out by account number.

Please let me know if you have any questions.

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Attachments