



COLORADO DEPARTMENT OF HEALTH
CARE POLICY AND FINANCING

Survey of the Average Cost of Dispensing a Medicaid Prescription in the State of Colorado

November 2024

Table of Contents

Table of Contents.....	1
Chapter 1: Executive Summary	3
Introduction	3
Summary of Findings.....	3
Chapter 2: Dispensing Cost Survey and Analysis	7
Dispensing Fees in Medicaid Programs.....	7
Current Reimbursement Methodology for the Colorado FFS Medicaid Pharmacy Program	8
Methodology of the Dispensing Cost Survey	8
Survey Distribution	8
Tests for Reporting Bias	10
Desk Review Procedures.....	10
Cost Finding Procedures.....	11
Overhead Costs	11
Labor Costs.....	14
Owner Compensation Issues.....	15
Overall Labor Cost Constraints	15
Inflation Factors	16
Dispensing Cost Analysis and Findings.....	16
Specialty Pharmacies	18
Non-specialty Pharmacies.....	20
Relationship of Dispensing Cost with Prescription Volume.....	20
Other Observations Associated with Dispensing Cost and Pharmacy Attributes.....	21
Expenses Not Allocated to the Cost of Dispensing	23

Exhibits

- Exhibit 1 Health First Colorado (Colorado’s Medicaid Program) Professional Dispensing Fee Survey – Survey Form
- Exhibit 2 Informational Letter from the Colorado Department of Health Care Policy and Financing Regarding Pharmacy Dispensing Cost Survey (Independent and Chain Pharmacies)
- Exhibit 3a Letter from Myers and Stauffer LC Regarding Pharmacy Dispensing Cost Survey (Independent Pharmacies)
- Exhibit 3b Letter from Myers and Stauffer LC Regarding Pharmacy Dispensing Cost Survey (Chain Pharmacies)
- Exhibit 4 Informational Meeting Flyer
- Exhibit 5 First Survey Reminder Postcard (Independent and Chain Pharmacies)
- Exhibit 6 Second Survey Reminder/Extension Postcard (Independent and Chain Pharmacies)
- Exhibit 7 Table of Inflation Factors for Dispensing Cost Survey
- Exhibit 8 Histogram of Pharmacy Dispensing Cost
- Exhibit 9 Pharmacy Cost of Dispensing Survey Data – Statistical Summary
- Exhibit 10 Charts Relating to Pharmacy Total Prescription Volume:
 - A: Histogram of Pharmacy Total Prescription Volume
 - B: Scatter Plot of Relationship between Dispensing Cost per Prescription and Total Prescription Volume
- Exhibit 11 Chart of Components of Cost of Dispensing per Prescription
- Exhibit 12 Summary of Pharmacy Attributes

Chapter 1: Executive Summary

Introduction

Under contract to the Colorado Department of Health Care Policy and Financing (DHCPF), Myers and Stauffer LC performed a study of pharmacy dispensing cost. The cost of dispensing study followed the methodology and used a survey instrument similar to those used by Myers and Stauffer in previous surveys for DHCPF and Medicaid pharmacy engagements in several other states. The methodology was consistent with guidelines from the Centers for Medicare and Medicaid Services (CMS) regarding the components of pharmacy cost that are appropriately reimbursed by the pharmacy dispensing fee of a state Medicaid program (CMS-2345-FC).

Federal regulations at 42 CFR § 447.518(d) require that when states propose changes to either the ingredient portion of pharmacy reimbursement or the professional dispensing fee, states must consider both to ensure that total reimbursement to the pharmacy provider is in accordance with requirements of section 1902(a)(30)(A) of the Social Security Act. Furthermore, states must provide adequate data, such as an in-state or other survey of retail pharmacy providers, to support any proposed changes to either the professional dispensing fee or ingredient component of the pharmacy reimbursement methodology.

Myers and Stauffer obtained from DHCPF a list of pharmacy providers currently enrolled in the Colorado Medicaid pharmacy program. According to the provider list, there were 1,118 pharmacy providers that were enrolled in the Colorado Medicaid pharmacy program. All 1,118 enrolled pharmacies were requested to submit survey information for this study.

Myers and Stauffer performed comprehensive desk review procedures to test completeness and accuracy of all dispensing cost surveys submitted. There were 502 pharmacies that filed cost surveys that could be included in this analysis. Data from these surveys, in conjunction with pharmacy-specific cost-finding algorithms, were used to calculate the average cost of dispensing at each pharmacy and results from these pharmacies were subjected to statistical analysis.

Summary of Findings

Per the survey of pharmacy dispensing costs for pharmacies participating in the Colorado Medicaid program, the mean cost of dispensing, weighted by Medicaid volume, was \$14.89 per prescription for all pharmacies including specialty pharmacies.¹ For non-specialty pharmacies only, the mean cost of dispensing, weighted by Medicaid volume, was \$11.99 per prescription. Table 1.1 includes additional measures of the average cost of dispensing.

¹ For purposes of this report, “specialty” pharmacies are those pharmacies that reported sales for intravenous, home infusion, clotting factor and/or other specialty services of 30 percent or more of total prescription sales.

Table 1.1 Dispensing Cost for Colorado Medicaid Pharmacies

Row Description	All Pharmacies Inclusive of Specialty	Non-specialty Pharmacies Only
Pharmacies Included in Analysis	502	415
Unweighted Mean (Average) ^A	\$30.31	\$13.55
Weighted Mean (Average) ^{A, B}	\$14.89	\$11.99
Unweighted Median ^A	\$12.58	\$11.85
Weighted Median ^{A, B}	\$11.51	\$11.10

^A Inflated to common point of June 30, 2024 (midpoint of year ending December 31, 2024).

^B Weighted by Medicaid volume.

There are several statistical measurements that may be used to express the central tendency, or “average,” of a distribution, the most common of which are the mean and the median. Weighted means and medians are often preferable to their unweighted counterparts. The weighted mean is the average cost for all prescriptions, rather than the average for all pharmacies as in the unweighted mean. This implies that low volume pharmacies have a smaller impact on the weighted average than high volume pharmacies. The weighting factor can be either total prescription volume or Medicaid prescription volume. The weighted median is determined by finding the pharmacy observation that encompasses the middle value prescription. The implication is that half of the prescriptions were dispensed at a cost of the weighted median or less, and half were dispensed at the cost of the weighted median or more. As with the weighted mean, the weighting factor can be either total prescription volume or Medicaid prescription volume.

For both weighted means and weighted medians, the use of Medicaid prescription volume as the weighting factor is particularly meaningful for consideration in determining appropriate reimbursement since it emphasizes the cost of dispensing from those pharmacies that dispense more significant volumes of Medicaid prescriptions.

A significant correlation was observed between a pharmacy’s total prescription volume and the dispensing cost per prescription. This relationship was similarly observed in a previous cost of dispensing survey performed by DHCPF which implemented a tiered structure for professional dispensing fees. These dispensing fees varied based on pharmacy volume and were set as follows:

Table 1.2 Current Colorado Medicaid Tiered Professional Dispensing Fees

Pharmacy Annual Total Prescription Volume	Current Professional Dispensing Fee ^{A, B}
Less than 60,000 prescriptions	\$13.40
Between 60,000 to 90,000 prescriptions	\$11.49
Between 90,000 to 110,000 prescriptions	\$10.25
Greater than 110,000 prescriptions	\$9.31
Rural pharmacies ^C	\$14.14

^A See Code of Colorado Regulations 10 CCR 2505-10 8.800.13.H

^B Clotting factor drugs that are reimbursed at AAC or Submitted Ingredient Cost shall include an enhanced professional dispensing fee of \$0.03 per unit according to Code of Colorado Regulations at 10 CCR 2505-10 8.800.13.O.

^C Rural pharmacy is defined in the Code of Colorado Regulations at 10 CCR 2505-10 8.800.A.36 and means any pharmacy that is the only pharmacy within a twenty mile radius.

Table 1.3 includes the average cost of dispensing for non-specialty pharmacies based on the current survey using the volume tiers currently used by DHCPF as the basis for professional dispensing fees.

Table 1.3 Average Dispensing Cost Tiered by Total Volume for Non-Specialty Colorado Medicaid Pharmacies

Pharmacy Annual Total Prescription Volume	Number of Pharmacies ^B	Mean Weighted by Medicaid Volume	Median Weighted by Medicaid Volume
Less than 60,000 prescriptions	146	\$15.65	\$13.95
Between 60,000 to 90,000 prescriptions	139	\$12.22	\$11.63
Between 90,000 to 110,000 prescriptions	66	\$10.29	\$9.93
Greater than 110,000 prescriptions	56	\$9.18	\$8.36
Rural Pharmacy ^C	8	\$12.47	\$9.91

^A Inflated to common point of June 30, 2024 (midpoint of year ending December 31, 2024).

^B Excludes specialty pharmacies. For purposes of this report, “specialty” pharmacies are those pharmacies that reported sales for intravenous, home infusion, clotting factor and/or other specialty services of 30 percent or more of total prescription sales.

^C Rural pharmacy is defined in the Code of Colorado Regulations at 10 CCR 2505-10 8.800.A.36 and means any pharmacy that is the only pharmacy within a twenty mile radius. DHCPF provided a list of pharmacies that have been designated as rural.

Table 1.4 includes the average cost of dispensing for all pharmacies based on the current survey using the volume tiers currently used by DHCPF as the basis for professional dispensing fees.

Table 1.4 Average Dispensing Cost Tiered by Total Volume for All Colorado Medicaid Pharmacies (includes specialty pharmacies)

Pharmacy Annual Total Prescription Volume	Number of Pharmacies	Mean Weighted by Medicaid Volume	Median Weighted by Medicaid Volume
Less than 60,000 prescriptions	194	\$19.68	\$14.25
Between 60,000 to 90,000 prescriptions	150	\$12.65	\$11.63
Between 90,000 to 110,000 prescriptions	70	\$10.50	\$9.93
Greater than 110,000 prescriptions	80	\$15.36	\$8.72
Rural Pharmacy ^B	8	\$12.47	\$9.91

^A Inflated to common point of June 30, 2024 (midpoint of year ending December 31, 2024).

^B *Rural pharmacy is defined in the Code of Colorado Regulations at 10 CCR 2505-10 8.800.A.36 and means any pharmacy that is the only pharmacy within a twenty mile radius. DHCPF provided a list of pharmacies that have been designated as rural.*

Despite indications that the cost of dispensing in specialty pharmacies varies from the cost of dispensing in non-specialty pharmacies, the use of differential dispensing fees for specialty pharmacies is relatively infrequent among state Medicaid programs. Several states have set dispensing fees based on the cost of dispensing observed at non-specialty pharmacies. This report includes average cost of dispensing measurements for several categories of specialty pharmacies which can be considered in the process of evaluating professional dispensing fees for the Colorado Medicaid program.

Chapter 2: Dispensing Cost Survey and Analysis

The Colorado Department of Health Care Policy and Financing (DHCPF) engaged Myers and Stauffer LC to perform a study of costs incurred by pharmacies participating in the Colorado Medicaid pharmacy program to dispense prescription medications. There are two primary components related to the provision of prescription medications: dispensing cost and drug ingredient cost. Dispensing cost consists of the overhead and labor costs incurred by a pharmacy to fill prescription medications.

Dispensing Fees in Medicaid Programs

The Centers for Medicare and Medicaid Services (CMS) has provided some basic guidelines for appropriate costs to be reimbursed via a Medicaid pharmacy dispensing fee. CMS guidelines state:

“Professional dispensing fee means the fee which—

(1) Is incurred at the point of sale or service and pays for costs in excess of the ingredient cost of a covered outpatient drug each time a covered outpatient drug is dispensed;

(2) Includes only pharmacy costs associated with ensuring that possession of the appropriate covered outpatient drug is transferred to a Medicaid recipient. Pharmacy costs include, but are not limited to, reasonable costs associated with a pharmacist’s time in checking the computer for information about an individual’s coverage, performing drug utilization review and preferred drug list review activities, measurement or mixing of the covered outpatient drug, filling the container, beneficiary counseling, physically providing the completed prescription to the Medicaid beneficiary, delivery, special packaging, and overhead associated with maintaining the facility and equipment necessary to operate the pharmacy; and

(3) Does not include administrative costs incurred by the State in the operation of the covered outpatient drug benefit including systems costs for interfacing with pharmacies.”²

Since CMS published CMS-2345-FC in February 2016, states have transitioned their fee-for-service (FFS) Medicaid programs to professional dispensing fees based on its requirements. There are 32 states that apply a single state-wide professional dispensing fee to all prescription claims. These single state-wide dispensing fees range from \$8.96 (Rhode Island) to \$12.46 (North Dakota). There are eight states, including Colorado, which have adopted tiered professional dispensing fees which are based on annual pharmacy total prescription volume. In states with volume-based tiers for professional dispensing fees, there are between two and four dispensing fee tiers. Seven states have adopted differential professional

² See 42 CFR § 447.502 and “Medicaid Program; Covered Outpatient Drugs.” (CMS-2345-FC) Federal Register, 81: 20 (1 February 2016) p 5349.

dispensing fees that are based on other criteria. For example, in Alaska professional dispensing fees vary based on whether a pharmacy is located on or off of the state's road system.

Current Reimbursement Methodology for the Colorado FFS Medicaid Pharmacy Program

The current pharmacy reimbursement formula for the Colorado Medicaid program is codified in the Code of Colorado Regulations at 10 CCR 2505-10 8.800. Ingredient reimbursement is primarily based on an AAC benchmark established by DHCPF. Professional dispensing fees are established with a tiered methodology based on the total prescription volume of pharmacies and range from \$9.31 to \$13.40; rural pharmacies receive a fee of \$14.41.³

The dispensing fee shall be determined based upon reported costs provided through a Cost of Dispensing (COD) survey according to the Code of Colorado Regulations at 10 CCR 2505-10 8.800.13.H.

Methodology of the Dispensing Cost Survey

In order to determine costs incurred to dispense pharmaceuticals to members of the Colorado Medicaid pharmacy program, Myers and Stauffer utilized a survey method consistent with federal regulations for the components of a pharmacy dispensing fee (42 CFR § 447.502) and the methodology of previous surveys conducted by Myers and Stauffer in Colorado and several other states. Myers and Stauffer collaborated with DHCPF to refine the survey tool to meet their objectives.

Survey Distribution

Myers and Stauffer obtained from DHCPF a list of pharmacy providers currently enrolled in the Colorado Medicaid pharmacy program. According to the provider list, there were 1,118 pharmacy providers enrolled in the program. Surveys were mailed and emailed to all 1,118 pharmacy providers on June 11, 2024. Each surveyed pharmacy received a copy of the cost survey (Exhibit 1), a letter of introduction from DHCPF (Exhibit 2), an instructional letter from Myers and Stauffer (Exhibits 3a and 3b), and an invitation to participate in a webinar hosted by Myers and Stauffer (Exhibit 4).

Concerted efforts to encourage participation were made to enhance the survey response rate. A toll-free telephone number and email address were listed on the survey form and pharmacists were instructed to call or email a survey help desk to resolve any questions they had concerning completion of the survey form. For convenience in completing the cost of dispensing survey, the survey forms were made available in both a printed format and in an electronic format (Microsoft Excel). The survey instructions offered pharmacy owners the option of having Myers and Stauffer complete certain sections of the survey for those that were willing to submit copies of financial statements and/or tax returns.

³ For purposes of pharmacy professional dispensing fees in Colorado Medicaid, "rural pharmacy" is defined in the Code of Colorado Regulations at 10 CCR 2505-10 8.800.A.36 and means any pharmacy that is the only pharmacy within a twenty mile radius. DHCPF provided a list of 18 pharmacies that have been designated as rural.

Additionally, Myers and Stauffer hosted informational webinars on June 20, 2024 and June 25, 2024. A brief presentation was given to assist pharmacies in completing the cost of dispensing survey and additional time was allowed to ask questions.

Reminder postcards were sent to pharmacies on July 11, 2024 (Exhibit 5) and July 30, 2024 (Exhibit 6). The second postcard announced an extension of the original due date from July 30, 2024 to August 20, 2024. Email reminders were also sent on July 11, 2024, July 30, 2024, and August 20, 2024 to all non-respondent pharmacies for which email addresses were available.

Providers were given instructions to report themselves as exempt or ineligible for the survey if they met certain criteria. Pharmacies were to be deemed exempt or ineligible if they had closed their pharmacy, had a change of ownership, or had less than six months of cost data available (e.g., due to a pharmacy that recently opened or changed ownership). Of the 1,118 surveyed pharmacies, 24 pharmacies were determined to be ineligible to participate based on the returned surveys.

Surveys were accepted through September 6, 2024. As indicated in Table 2.1, there were 502 surveyed pharmacies that submitted a usable cost survey for this study resulting in a response rate of 45.9 percent.

Some of the submitted cost surveys contained errors or did not include complete information necessary for full evaluation. For cost surveys with such errors or omissions, the pharmacy was contacted for clarification. There were some instances in which issues on the cost survey were not resolved in time for inclusion in the final analysis.⁴

The following table, 2.1, summarizes the dispensing cost survey response rate.

Table 2.1 Dispensing Cost Survey Response Rate

Pharmacy Category	Medicaid Enrolled Pharmacies	Pharmacies Exempt or Ineligible from Filing	Eligible Pharmacies	Usable Cost Surveys Received	Response Rate
Chain ⁵	800	17	783	397	50.7%
Non-chain	318	7	311	105	33.8%
TOTAL	1,118	24	1,094	502	45.9%

⁴ There were 18 incomplete surveys received on or before September 6, 2024 that were eventually determined to be unusable because they were substantially incomplete or missing essential information. These issues could not be resolved in a timely manner with the submitting pharmacy. These incomplete surveys were not included in the count of 502 usable surveys received.

⁵ For purposes of this survey, a chain was defined as an organization having four or more pharmacies under common ownership or control on a national level.

Pharmacy Category	Medicaid Enrolled Pharmacies	Pharmacies Exempt or Ineligible from Filing	Eligible Pharmacies	Usable Cost Surveys Received	Response Rate
In-State Non-Rural ⁶	894	19	875	432	49.4%
Rural	18	0	18	8	44.4%
Out-of-State	206	5	201	62	30.8%
TOTAL	1,118	24	1,094	502	45.9%

Tests for Reporting Bias

For the pharmacy traits of affiliation (i.e., chain or non-chain) and location (i.e., non-rural or rural), the response rates of the submitted surveys were tested to determine if they were representative of the population of Medicaid provider pharmacies. Since the overall response rate of the surveyed pharmacies was less than 100 percent, the possibility of bias in the response rate should be considered. To measure the likelihood of this possible bias, chi-square (χ^2) tests were performed. A χ^2 test evaluates differences between proportions for two or more groups in a data set.

Of the 502 usable cost surveys, 397 were from chain pharmacies and 105 were from non-chain pharmacies. There was a response rate of 50.7 percent for chain pharmacies compared to a response rate of 33.8 percent for non-chain pharmacies. The results of the χ^2 test indicated that the difference in response rate between chain and independent pharmacies was statistically significant at the 95 percent confidence level. This implies that independent pharmacies were underrepresented in usable surveys received. No adjustments to the cost of dispensing data were made as a result of this observation.

A χ^2 test was also performed with respect to the non-rural versus rural location for responding pharmacies that were located in the state of Colorado. Of the 893 non-exempt pharmacies located in the state of Colorado, 875 pharmacies (or 98.0 percent) were considered to be non-rural. The remaining 18 pharmacies (or 2.0 percent) were considered rural. There were 432 usable surveys submitted by in-state pharmacies in a non-rural location (a response rate of 49.4 percent). There were 8 usable surveys submitted by in-state pharmacies in a rural location (a response rate of 44.4 percent). The results of the χ^2 test indicated that the difference in response rate between urban and rural pharmacy locations within the state was not statistically significant at the 95 percent confidence level.

Desk Review Procedures

A desk review was performed for 100 percent of surveys received. This review identified incomplete cost surveys; pharmacies submitting these incomplete cost surveys were contacted by telephone and/or email to obtain information necessary for completion. The desk review process also incorporated a number of tests to determine the reasonableness of the reported data. In many instances, pharmacies

⁶ Rural pharmacy is defined in the Code of Colorado Regulations at 10 CCR 2505-10 8.800.A.36 and means any pharmacy that is the only pharmacy within a twenty mile radius. DHCPF provided a list of pharmacies that have been designated as rural.

were contacted to correct or provide confirmation of reported survey data that was flagged for review as a result of these tests for reasonableness.

Cost Finding Procedures

For all pharmacies, the basic formula used to determine the average dispensing cost per prescription was to calculate the total dispensing-related cost and divide it by the total number of prescriptions dispensed:

$$\text{Average Dispensing Cost} = \frac{\text{Total (Allowable) Dispensing Related Cost}}{\text{Total Number of Prescriptions Dispensed}}$$

Although the denominator of the cost of dispensing formula (i.e., the “total number of prescriptions dispensed”) is relatively straight-forward, the calculation of the numerator of the formula (i.e., “total (allowable) dispensing related cost”) can be complex. “Cost finding” principles must be applied since not all reported costs were strictly related to the prescription dispensing function of the pharmacy. Most pharmacies are also engaged in lines of business other than the dispensing of prescription drugs. For example, many pharmacies have a retail business with sales of over-the-counter (OTC) drugs and other non-medical items such as groceries or other goods. Some pharmacies are involved in the sale of durable medical equipment and other medical supplies. The existence of these other lines of business necessitates that procedures be taken to isolate the costs involved in the prescription dispensing function of the pharmacy.

“Cost finding” is the process of recasting cost data using rules or formulas in order to accomplish an objective. In this study, the objective is to estimate the cost of dispensing prescriptions to Medicaid members. To accomplish this objective, some pharmacy costs must be allocated between the prescription dispensing function and other business activities. This process identified the reasonable and allowable costs necessary for prescription dispensing to Medicaid members.

Dispensing cost consists of two main components: overhead and labor. The cost finding rules employed to determine the cost of dispensing associated with each of these components are described in the following sections.

Overhead Costs

Overhead cost per prescription was calculated by summing the allocated overhead of each pharmacy and dividing this sum by the number of prescriptions dispensed. Overhead expenses that were reported for the entire pharmacy were allocated to the prescription department based on one of the following methods:

- All, or 100 percent – overhead costs that are entirely related to prescription functions.
- None, or 0 percent – overhead costs that are entirely related to non-prescription functions.
- Sales ratio – calculated as prescription sales divided by total sales.

- Area ratio – calculated as prescription department floor space (in square feet) divided by total floor space. The area ratio was increased by a factor of 2.0 from the square footage values reported on the cost survey. The use of this factor creates an allowance for waiting and counseling areas for patients, a prescription department office area and store area needed to access the prescription department. The resulting ratio was adjusted downward, when necessary, not to exceed the sales ratio (in order to avoid allocating 100 percent of these costs in the instance where the prescription department occupies the majority of the area of the store).

Overhead costs that were considered entirely prescription-related include:

- Prescription department licenses.
- Prescription delivery expense.
- Prescription computer expense.
- Prescription containers and labels. (For many pharmacies the costs associated with prescription containers and labels are captured in their cost of goods sold. Subsequently, it was often the case that a pharmacy was unable to report expenses for prescription containers and labels. In order to maintain consistency, a minimum allowance for prescription containers and labels was determined to use for pharmacies that did not report an expense amount for containers and labels. The allowance was set at the 95th percentile of prescription containers and labels expense per prescription for pharmacies that did report prescription containers and labels expense: \$0.47 per prescription).
- Certain other expenses that were separately identified on Lines (32a) to (32t) of Page 7 of the cost survey (Exhibit 1).⁷

Overhead costs that were not allocated as a prescription expense include:

- Income taxes.⁸
- Bad debts.⁹

⁷ “Other” expenses were individually analyzed to determine the appropriate basis for allocation of each expense: sales ratio, area ratio, 100 percent related to dispensing cost or 0 percent (not allocated).

⁸ Income taxes are not considered an operational cost because they are based upon the profit of the pharmacy operation.

⁹ Bad debt expense is not referenced in CMS guidelines for professional dispensing fees at 42 CFR § 447.502. Furthermore, the exclusion of bad debts from the calculation of dispensing costs is consistent with Medicare cost reporting principles. See Provider Reimbursement Manual, CMS Pub.15-1, Section 304: *“The allowance of unrecovered costs attributable to such bad debts in the calculation of reimbursement by the Program results from the expressed intent of Congress that the costs of services covered by the Program will not be borne by individuals not covered, and the costs of services not covered by the Program will not be borne by the Program.”*

- Advertising.¹⁰
- Charitable Contributions.¹¹
- Credit Card Processing Fees.¹²
- Certain costs reported on Lines (32a) through (32t) of Page 7 of the cost survey (Exhibit 1) were excluded if the expense was not related to the dispensing of prescription drugs.

The remaining expenses were assumed to be related to both prescription and nonprescription sales and were allocated using either an area ratio or a sales ratio. Joint cost allocation is necessary to avoid understating or overstating the cost of filling a prescription.

Overhead costs allocated using the sales ratio include:

- Personal property taxes.
- Other taxes.
- Insurance.
- Interest.
- Accounting and legal fees.
- Telephone and supplies.
- Dues and publications.

Those overhead costs allocated on the area ratio include:

- Depreciation.¹³

¹⁰ Advertising expense is not referenced in CMS guidelines for professional dispensing fees at 42 CFR § 447.502. Furthermore, the exclusion of most types of advertising expense is consistent with Medicare cost reporting principles. See Provider Reimbursement Manual, CMS Pub. 15.1, Section 2136.2: *"Costs of advertising to the general public which seeks to increase patient utilization of the provider's facilities are not allowable."*

¹¹ Charitable contributions are not referenced in CMS guidelines for professional dispensing fees at 42 CFR § 447.502. Individual proprietors and partners are not allowed to deduct charitable contributions as a business expense for federal income tax purposes. Any contributions made by their business are deducted along with personal contributions as itemized deductions. However, corporations are allowed to deduct contributions as a business expense for federal income tax purposes. Thus, while Line 13 on the cost report recorded the business contributions of a corporation, none of these costs were allocated as a prescription expense. This provides equal treatment for each type of ownership.

¹² Credit card processing fees were not allowed on the basis that prescriptions for Medicaid members are not predominantly paid through credit or debit card payments.

¹³ Allocation of certain expenses using a ratio based on square footage is consistent with Medicare cost reporting principles. See Provider Reimbursement Manual, CMS Pub. 15-2, Section 3617.

- Real estate taxes.
- Rent.¹⁴
- Repairs.
- Utilities.

Labor Costs

Labor costs are calculated by allocating total salaries, payroll taxes, and benefits based on the percent of time spent in the prescription department. The allocations for each labor category were summed and then divided by the number of prescriptions dispensed to calculate labor cost per prescription. There are various classifications of salaries and wages requested on the cost survey (Lines (1) to (12) of Page 5 of the cost survey – Exhibit 1) due to the different cost treatment given to each labor classification.

Although some employee pharmacists spent a portion of their time performing nonprescription duties, it was assumed in this study that their economic productivity when performing nonprescription functions was less than their productivity when performing prescription duties. The total salaries, payroll taxes, and benefits of employee pharmacists were multiplied by a factor based upon the percent of prescription time. Therefore, a higher percentage of salaries, payroll taxes, and benefits was allocated to prescription labor costs than would have been allocated if a simple percent of time allocation were utilized. Specifically, the percent of prescription time indicated was adjusted by the following formula:¹⁵

$$\frac{(2)(\%Rx\ Time)}{(1 + (\%Rx\ Time))}$$

The allocation of salaries, payroll taxes, and benefits for all other prescription employees (Line (2) and Lines (4) to (12) of Page 5 of the cost survey – Exhibit 1) was based directly upon the percentage of time spent in the prescription department as indicated on the individual cost survey. For example, if the

¹⁴ The survey instrument included special instructions for reporting rent and requested that pharmacies report “ownership expenses of interest, taxes, insurance and maintenance if building is leased from a related party.” This treatment of related-party expenses is consistent with Medicare cost reporting principles. See Provider Reimbursement Manual, CMS Pub. 15-2, Section 3614: “Cost applicable to home office costs, services, facilities, and supplies furnished to you by organizations related to you by common ownership or control are includable in your allowable cost at the cost to the related organizations. However, such cost must not exceed the amount a prudent and cost conscious buyer pays for comparable services, facilities, or supplies that are purchased elsewhere.”

¹⁵ Example: An employee pharmacist spends 90 percent of his/her time in the prescription department. The 90 percent factor would be modified to 95 percent:

$$(2)(0.9)/(1+0.9) = 0.95$$

Thus, 95 percent of the reported salaries, payroll taxes, and benefits would be allocated to the prescription department. It should be noted that most employee pharmacists spent 100 percent of their time in the prescription department.

reported percentage of prescription time was 75 percent and total salaries were \$10,000, then the allocated prescription cost would be \$7,500.

Owner Compensation Issues

Since compensation reported for owners are not costs that have arisen from arm's length negotiations, they are not similar to other costs. Accordingly, limitations were placed upon the allocated salaries, payroll taxes, and benefits of owners. A pharmacy owner may have a different approach toward other expenses than toward his/her own salary. Owners may pay themselves above the market costs of securing the services of an employee. In this case, paying themselves above market cost effectively represents a withdrawal of business profits, not a cost of dispensing. In contrast, owners who pay themselves below market cost for business reasons also misrepresent the true dispensing cost.

To estimate the cost that would have been incurred had an employee been hired to perform the prescription-related functions actually performed by the owner, upper and lower limits were imposed on owner salaries and benefits. For purposes of setting owner's compensation limits, owners who are pharmacists were considered separately from owners who are not pharmacists. Constraints for owners were set using upper and lower thresholds for hourly compensation that represented approximately the 95th and 40th percentiles of employee salaries and benefits for pharmacists and non-pharmacists (adjusted by reported FTEs to estimate hourly wages). These upper and lower constraints are shown in Table 2.2. No adjustments were made to owner salaries and benefits unless they were in below the lower limit or in excess of the upper limit in which case the amount was adjusted up or down to the respective limit.

Table 2.2 Hourly Wage and Benefit Limits for Owners

Owner Type	Lower Limit (Hourly)	Upper Limit (Hourly)
Pharmacist	\$58.79	\$82.04
Non-Pharmacist	\$19.52	\$75.72

A sensitivity analysis of the owner labor limits was performed in order to determine the impact of the limits on the overall analysis of pharmacy dispensing cost. Of the 502 pharmacies in the cost analysis, owner limits impacted 37 pharmacies, or 7.4 percent. Of these, 14 pharmacies had costs reduced as a result of application of these limits (on the basis that a portion of owner salary "cost" appeared to represent a withdrawal of profits from the business), and 23 pharmacies had costs increased as a result of the limits (on the basis that owner salaries appeared to be below their market value). In total, the final estimate of average pharmacy dispensing cost per prescription was decreased by approximately \$0.05 as a result of the owner salary limits.

Overall Labor Cost Constraints

An overall constraint was placed on the proportion of total reported labor that could be allocated as prescription labor. The constraint assumes that a functional relationship exists between the proportion of allocated prescription labor to total labor and the proportion of prescription sales to total sales. It is

also assumed that a higher input of labor costs is necessary to generate prescription sales than nonprescription sales, within limits.

The parameters of the applied labor constraint are based upon an examination of data submitted by all pharmacies. These parameters are set in such a way that any resulting adjustment affects only those pharmacies with a percentage of prescription labor deemed unreasonable. For example, the constraint would come into play for an operation that reported 75 percent pharmacy sales but 100 percent pharmacy labor since, some labor must be devoted to generating the 25 percent nonprescription sales.

To determine the maximum percentage of total labor allowed, the following calculation was made:

$$\frac{0.3(\text{Sales Ratio})}{0.1 + (0.2)(\text{Sales Ratio})}$$

A sensitivity analysis of the labor cost restraint was performed in order to determine the impact of the limit on the overall analysis of pharmacy cost. The analysis indicates that of the 502 pharmacies included in the dispensing cost analysis, this limit was applied to 26 pharmacies. In total, the final estimate of average pharmacy dispensing cost per prescription was decreased by less than \$0.01 as a result of the labor cost restraint.

Inflation Factors

All allocated costs for overhead and labor were totaled and multiplied by an inflation factor. Inflation factors are intended to reflect cost changes from the middle of the reporting period of a particular pharmacy to a common fiscal period ending June 30, 2024 (specifically from the midpoint of the pharmacy's fiscal year to June 30, 2024 which is the midpoint of the fiscal period ending December 31, 2024). The midpoint and terminal month indices used were taken from the Employment Cost Index, (all civilian, all workers; seasonally adjusted) published by the Bureau of Labor Statistics (BLS) (Exhibit 7). The use of inflation factors is typically preferred in order for pharmacy cost data from various fiscal years to be compared uniformly. The majority of submitted cost surveys were based on a fiscal year which ended on either December 31, 2023 or January 31, 2024.

Dispensing Cost Analysis and Findings

The dispensing costs for surveyed pharmacies are summarized in the following tables and paragraphs. Findings for pharmacies are presented collectively and additionally are presented for subsets of the surveyed population based on pharmacy characteristics.

There are several statistical measurements that may be used to express the central tendency of a distribution, the most common of which are the mean and the median. Findings are presented in the forms of means and medians, both weighted and unweighted.

The measures of central tendency used in this report include the following:

Unweighted Mean: The arithmetic average cost for all pharmacies.

Weighted Mean: The average cost of all prescriptions dispensed by surveyed pharmacies, weighted by prescription volume. The resulting number is the average cost for all prescriptions, rather than the average for all pharmacies as in the unweighted mean. This implies that low volume pharmacies have a smaller impact on the weighted average than high volume pharmacies. This approach, in effect, sums all costs from surveyed pharmacies and divides that sum by the total of all prescriptions from surveyed pharmacies. The weighting factor can be either total prescription volume or Medicaid prescription volume.

Median: The value that divides a set of observations (such as dispensing cost) in half. In the case of this survey, the median is the dispensing cost such that the cost of one half of the pharmacies in the set are less than or equal to the median and the dispensing costs of the other half are greater than or equal to the median.

Weighted Median: This is determined by finding the pharmacy observation that encompasses the middle value prescription. The implication is that one half of the prescriptions were dispensed at a cost of the weighted median or less, and one half were dispensed at the cost of the weighted median or more. Suppose, for example, that one wanted to calculate the median weighted by Medicaid volume and that there were 1,000,000 Medicaid prescriptions dispensed by the surveyed pharmacies. If the dispensing cost of each of these prescriptions were arrayed in order of the dispensing cost, the median weighted by Medicaid volume, is the dispensing cost of the pharmacy that dispensed the middle, or 500,000th prescription.

As is typically the case with dispensing cost surveys, statistical “outliers” are a common occurrence. These outlier pharmacies have dispensing costs that are not typical of the majority of pharmacies. Medians are sometimes preferred to averages (i.e., the arithmetic mean) in situations where the magnitude of outlier values results in an average that does not represent what is thought of as “average” or normal in the common sense. The use of weighting factors also tends to mitigate the impact of many outlier values.

For all pharmacies, the cost of dispensing findings are presented in Table 2.3.

Table 2.3 Dispensing Cost per Prescription – All Pharmacies

Measurement of Central Tendency	Dispensing Cost
Unweighted Mean	\$30.31
Mean Weighted by Medicaid Volume	\$14.89
Unweighted Median	\$12.58
Median Weighted by Medicaid Volume	\$11.51

n= 502 pharmacies

Dispensing costs have been inflated to the common point of June 30, 2024 (midpoint of year ending December 31, 2024).

See Exhibit 8 for a histogram of the dispensing cost for all pharmacies. There was a large range between the highest and the lowest dispensing cost observed. However, the majority of pharmacies (approximately 67.7 percent) had average dispensing costs between \$7 and \$15. However, as shown in Exhibit 8, the histogram of the dispensing cost for all pharmacies has a “long tail” to the right, indicating pharmacies with dispensing cost in excess of \$15 per prescription.

Exhibit 9 includes a statistical summary with a wide variety of measures of pharmacy dispensing cost with breakdowns for many pharmacy attributes potentially of interest. For measurements that refer to the non-rural or rural location of a pharmacy rural pharmacy is defined in the Code of Colorado Regulations at 10 CCR 2505-10 8.800.A.36 and means any pharmacy that is the only pharmacy within a twenty mile radius. DHCPF provided a list of 18 pharmacies that have been designated as rural.

Specialty Pharmacies

Several pharmacies included in the cost analysis were identified as specialty pharmacies. For purposes of this report, “specialty pharmacies” are pharmacies that reported sales for intravenous, home infusion, clotting factor and/or other specialty services of 30 percent or more of total prescription sales. The analysis revealed significantly higher cost of dispensing associated with pharmacies that met this criteria.¹⁶

The difference in dispensing costs that were observed for providers of specialty services compared to those pharmacies that did not offer these specialty services is summarized in Table 2.4.

Table 2.4 Dispensing Cost per Prescription – Specialty versus Other Pharmacies

Type of Pharmacy	Number of Pharmacies	Average Total Annual Prescription Volume (mean and median)	Average Medicaid Prescription Volume (mean and median)	Unweighted Mean	Mean Weighted by Medicaid Volume
Specialty Pharmacies	87	Mean: 125,266 Median: 47,994	Mean: 6,829 Median: 453	\$110.23	\$34.55
Other Pharmacies	415	Mean: 108,713 Median: 71,601	Mean: 9,726 Median: 8,019	\$13.55	\$11.99

¹⁶ In every pharmacy cost of dispensing study in which information on clotting factor, intravenous solution, home infusion and other specialty dispensing activity has been collected by Myers and Stauffer, such activity has been found to be associated with higher dispensing costs. Discussions with pharmacists providing these services indicate that the activities and costs involved for these types of prescriptions are significantly different from the costs incurred by other pharmacies. The reasons for this difference include:

- Costs of special equipment for mixing and storage of clotting factor, intravenous, infusion and other specialty products.
- Costs of additional services relating to patient education, compliance programs, monitoring, reporting and other support for specialty products.
- Higher direct labor costs due to more intensive activities to prepare certain specialty prescriptions in the pharmacy.

n= 502 pharmacies

Dispensing costs have been inflated to the common point of June 30, 2024 (midpoint of year ending December 31, 2024).

Pharmacies that dispense specialty prescriptions as a significant part of their business often have dispensing costs in excess of those found in a traditional pharmacy. As part of the survey, pharmacies that dispense specialty drugs were requested to provide a breakdown of sales and prescriptions dispensed for categories of specialty products dispensed. Based on the data obtained on the survey, Myers and Stauffer categorized specialty pharmacies into three primary categories:

- Pharmacies that dispense clotting factor products.
- Pharmacies that provide compounded infusion and other custom-prepared intravenous products.
- Pharmacies that provide other specialty products (e.g., prefilled injectable products, oral specialty medications).

Some pharmacies dispensed products which included more than one category of services described above. However, for purposes of analysis, Myers and Stauffer organized pharmacies using a hierarchical approach giving priority in the order of 1) dispensing clotting factor products and 2) dispensing compounded infusion or other custom-prepared intravenous products. The cost of dispensing results for these categories of specialty pharmacies is summarized in Table 2.5.

Table 2.5 Dispensing Cost per Prescription – Categories of Specialty Pharmacies

Type of Pharmacy	Number of Pharmacies	Average Total Annual Prescription Volume (mean and median)	Average Medicaid Prescription Volume (mean and median)	Unweighted Mean	Mean Weighted by Medicaid Volume
Clotting factor	5	Mean: 27,172 Median: 15,387	Mean: 189 Median: 28	\$334.31	\$315.63
Compounded Infusion/Intravenous Products	4	Mean: 36,731 Median: 36,783	Mean: 4,678 Median: 66	\$216.23	\$235.86
Other Specialty Pharmacies	78	Mean: 136,094 Median: 53,249	Mean: 7,365 Median: 551	\$90.42	\$27.54

n= 87 pharmacies

Dispensing costs have been inflated to the common point of June 30, 2024 (midpoint of year ending December 31, 2024).

Non-specialty Pharmacies

The analyses summarized in Tables 2.6 through 2.10 below exclude specialty pharmacy providers. In making this exclusion, no representation is made that the cost structure of specialty pharmacies is not

important to understand. However, it is reasonable to address issues relevant to those pharmacies separately from the cost structure of the vast majority of pharmacy providers that provide “traditional” pharmacy services. Table 2.6 restates the measurements noted in Table 2.3 excluding pharmacies that dispensed significant volumes of specialty prescriptions.

Table 2.6 Dispensing Cost per Prescription – Excluding Specialty Pharmacies

Measurement of Central Tendency	Dispensing Cost
Unweighted Mean	\$13.55
Mean Weighted by Medicaid Volume	\$11.99
Unweighted Median	\$11.85
Median Weighted by Medicaid Volume	\$11.10

n= 415 pharmacies

Dispensing costs have been inflated to the common point of June 30, 2024 (midpoint of year ending December 31, 2024).

Relationship of Dispensing Cost with Prescription Volume

There is a significant correlation between a pharmacy’s total prescription volume and the dispensing cost per prescription. This result is not surprising because many of the costs associated with a business operation, including the dispensing of prescriptions, have a fixed component that does not vary significantly with increased volume. For stores with a higher total prescription volume, these fixed costs are spread over a greater number of prescriptions resulting in lower costs per prescription. A number of relatively low volume pharmacies in the survey skew the distribution of dispensing cost and increase the measurement of the unweighted average (mean) cost of dispensing. Means and medians weighted by either Medicaid volume or total prescription volume may provide a more realistic measurement of typical dispensing cost.

Pharmacies were classified into meaningful groups based upon their differences in total prescription volume. Dispensing costs were then analyzed based upon these volume classifications. Table 2.7 displays the calculated cost of dispensing for non-specialty pharmacies arrayed into tiers based on total annual prescription volume. The volume-based tiers used in Table 2.7 are aligned with the volume-based tiers currently used by DHCPF to determine professional dispensing fees for non-compounded drugs.

Table 2.7 Dispensing Cost by Pharmacy Total Annual Prescription Volume

Total Annual Prescription Volume of Pharmacy	Number of Pharmacies ^A	Unweighted Mean	Mean Weighted by Medicaid Volume
0 to 59,999	146	\$17.70	\$15.65
60,000 to 89,999	139	\$11.77	\$12.22
90,000 to 109,999	66	\$10.42	\$10.29
110,000 or greater	56	\$10.83	\$9.18
Rural ^B	8	\$13.80	\$12.47

n= 415 pharmacies

^A Excludes specialty pharmacies, which for purposes of this report are those pharmacies that reported sales for intravenous, home infusion, clotting factor and/or other specialty services of 30 percent or more of total prescription sales.

^B Rural pharmacy is defined in the Code of Colorado Regulations at 10 CCR 2505-10 8.800.A.36 and means any pharmacy that is the only pharmacy within a twenty mile radius. DHCPF provided a list of pharmacies that have been designated as rural.

Dispensing costs have been inflated to the common point of June 30, 2024 (midpoint of year ending December 31, 2024).

Table 2.8 provides statistics for the distribution of pharmacy annual prescription volume.

Table 2.8 Statistics for Pharmacy Total Annual Prescription Volume

Statistic	Value ^A
Mean	108,713
Standard Deviation	297,781
10th Percentile	37,510
25th Percentile	49,680
Median	71,601
75th Percentile	94,647
90th Percentile	124,130

n= 415 pharmacies

^A Excludes specialty pharmacies, which for purposes of this report are those pharmacies that reported sales for intravenous, home infusion, clotting factor and/or other specialty services of 30 percent or more of total prescription sales.

A histogram of pharmacy total annual prescription volume and a scatter-plot of the relationship between dispensing cost per prescription and total prescription volume are included in Exhibit 10.

Other Observations Associated with Dispensing Cost and Pharmacy Attributes

The dispensing cost of the surveyed pharmacies was broken down into the various components of overhead and labor related costs. Table 2.9 displays the mean for various components of cost for non-specialty pharmacies. Labor-related expenses accounted for approximately 73 percent of overall prescription dispensing costs.

Expenses in Table 2.9 are classified as follows:

- Owner professional labor – owner’s labor costs were subject to constraints in recognition of its special circumstances as previously noted.
- Employee professional labor consists of employee pharmacists. Other labor includes the cost of delivery persons, interns, technicians, clerks and any other employee with time spent performing the prescription dispensing function of the pharmacy.

- Building and equipment expense includes depreciation, rent, building ownership costs, repairs, utilities and any other expenses related to building and equipment.
- Prescription-specific expense includes pharmacist-related dues and subscriptions, prescription containers and labels, prescription-specific computer expenses, prescription-specific delivery expenses (other than direct labor costs) and any other expenses that are specific to the prescription dispensing function of the pharmacy.
- Other overhead expenses consist of all other expenses that were allocated to the prescription dispensing function of the pharmacy including interest, insurance, telephone, and legal and professional fees.

Table 2.9 Components of Prescription Dispensing Cost

Type of Expense	Mean Weighted by Medicaid Volume ^A
Owner Professional Labor	\$0.272
Employee Professional and Other Labor	\$8.496
Building and Equipment	\$0.892
Prescription Specific Expenses (including delivery)	\$0.969
Other Overhead Expenses	\$1.365
TOTAL	\$11.994

n= 415 pharmacies

^A Excludes specialty pharmacies, which for purposes of this report are those pharmacies that reported sales for intravenous, home infusion, clotting factor and/or other specialty services of 30 percent or more of total prescription sales.

Dispensing costs have been inflated to the common point of June 30, 2024 (midpoint of year ending December 31, 2024).

A chart of the components of prescription dispensing cost is provided in Exhibit 11.

In addition to pharmacy dispensing cost data, several pharmacy attributes were collected on the cost survey. A summary of those attributes is provided at Exhibit 12.

Expenses Not Allocated to the Cost of Dispensing

In the following Table 2.10, measurements are provided for certain expenses that were not included in the cost of dispensing. Reasons for not including these costs were discussed previously in the report. For all of the expenses below, average cost per prescription was calculated using a sales ratio as the basis for allocation.

Table 2.10 Non-Allocated Expenses per Prescription

Expense Category	Mean Weighted by Medicaid Volume ^A
Bad Debts	\$0.008
Charitable Contributions	\$0.004
Advertising	\$0.029

n= 415 pharmacies

^A *Excludes specialty pharmacies, which for purposes of this report are those pharmacies that reported sales for intravenous, home infusion, clotting factor and/or other specialty services of 30 percent or more of total prescription sales.*

Dispensing costs have been inflated to the common point of June 30, 2024 (midpoint of year ending December 31, 2024).

Exhibit 1

Health First Colorado (Colorado's Medicaid Program) Professional Dispensing Fee Survey – Survey Form

Exhibit 1, on the following pages, is the eight-page cost of dispensing survey form that was mailed to all pharmacies that participate in the Colorado Medicaid Pharmacy Program. The survey form includes various attribute questions, reporting for specialty pharmaceuticals, labor expenses, overhead expenses, and a reconciliation page.

Health First Colorado (Colorado's Medicaid Program) Professional Dispensing Fee Survey

Survey forms by Myers and Stauffer LC under contract with the Colorado Department of Health Care Policy & Financing

M&S Use Only

Return Completed Forms to:
Myers and Stauffer LC
700 W. 47th Street, Suite 1100
Kansas City, Missouri 64112

ROUND ALL AMOUNTS TO NEAREST DOLLAR OR WHOLE NUMBER

Complete and return by **July 30, 2024**

Call toll free (800) 374-6858 or email disp_survey@mslc.com if you have any questions.

An electronic version of the Health First Colorado Professional Dispensing Fee Survey is available. The electronic version is in Excel format. The electronic version aids the user by calculating totals and transferring information to the reconciliation to help ensure the accuracy of the data. Please send an email to disp_survey@mslc.com to request the electronic version of the survey. Completed surveys can be returned via email to disp_survey@mslc.com.

Name of Pharmacy _____ Prov. No. (NPI) _____
Street Address _____ Telephone No. () _____
City _____ County _____ State _____ Zip Code _____

DECLARATION BY OWNER AND PREPARER

I declare that I have examined this cost survey including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, complete, and in agreement with the related financial statements or federal income tax return, except as explained in the reconciliation. Declaration of preparer (other than owner) is based on all information of which preparer has any knowledge.

Signature of Owner _____	Printed Name _____	Title/Position _____	Date _____
Preparer's Signature (if other than owner) _____	Printed Name _____	Title/Position _____	Date _____
Preparer's Street Address _____	City and State _____	Zip _____	
() _____			
Phone Number _____	Email Address _____		

DECLARATION OF EXEMPTION

All Health First Colorado participating pharmacies should complete all pages of this survey unless you meet the following criteria:

1. ☐ New pharmacies that were in business less than **six months** during the most recently completed reporting period.

Enter date the pharmacy opened: _____

2. ☐ Pharmacies with a change in ownership that resulted in less than **six months** in business during the reporting period.

Enter the date pharmacy changed ownership: _____

If your pharmacy meets either of the above criteria, check the box next to the explanation describing your situation and report the relevant date. Pharmacies which are considered "exempt" do not need to complete the remaining portions of the survey. If you have any questions as to the status of your pharmacy please call Myers and Stauffer at (800)374-6858 or email disp_survey@mslc.com for assistance.

SECTION IA -- PHARMACY ATTRIBUTES

Page 2

The following information is from fiscal / tax year ending

Complete these forms using your most recently completed fiscal year for which financial records are available and complete (e.g., December 31, 2023, or December 31, 2022, if 2023 records are not yet complete). **(Include month/day/year).**

All Pharmacies should complete lines (a) through (n).

List the total number of all prescriptions dispensed during your most recently completed fiscal year as follows:

(a)	1. New	2. Refill	3. Total
-----	--------	-----------	----------

“Prescriptions Dispensed.” Report the total number of all prescriptions filled during the fiscal year being reported on this cost survey. This information may be kept on a daily or monthly log or on your computer.

(b) Sales and Floor Space

Pharmacy Department Only

Total Store (Retail and Pharmacy Department)

Sales (Excluding Sales Tax)

Cost of Goods Sold

Floor Space (see instructions below)

Sq. Ft.

Sq. Ft.

Store sales excluding sales tax. Total store sales and cost of goods sold normally be obtained from a financial statement or a federal income tax return (if the tax return only includes the store being surveyed). "Pharmacy Department" sales should only include sales of prescription drugs and should not include non-prescription over the counter drugs, durable medical equipment or other nonprescription items.

Cost of Goods Sold. If pharmacy department cost of goods sold is not readily available, leave that line blank.

Floor Space. Provide square footage for pharmacy department dispensing area and total store square footage (pharmacy department + retail area). Since floor space will be used in allocating certain expenses, accuracy is important.

For simplicity, when measuring the pharmacy department exclude all of the following:

> Patient waiting area > Counseling area > Pharmacy department office space > Pharmacy department storage

The before mentioned areas should be included in total store area, but not pharmacy department square footage. A factor will be added to the pharmacy department to account for waiting area, counseling area, pharmacy department office space and pharmacy department storage. When measuring the total store square footage exclude any storage area (e.g., basement, attic, off-the-premises areas or freight in-out areas).

(c) Amount of State Sales Tax collected during fiscal year used for survey (round to nearest whole dollar) \$

What is the approximate percentage of **prescriptions dispensed** for the following classifications?

(d) 1. Medicaid (fee for service) _____ % 2. Medicaid Managed Care _____ %
3. Other Third Party _____ % 4. Cash _____ %

What is the approximate percentage of **payments received** from the following classifications?

(e)	1. Medicaid (fee for service)	_____ %	2. Medicaid Managed Care	_____ %
	3. Other Third Party	_____ %	4. Cash	_____ %

(f) Ownership Affiliation

1. <input type="checkbox"/> Independent (1 to 3 units)	2. <input type="checkbox"/> Chain (4 or more units)
3. <input type="checkbox"/> Institutional (service to LTC facilities only)	4. <input type="checkbox"/> Other (specify) _____

(g) Type of Ownership

1. ☐ Individual 2. ☐ Corporation 3. ☐ Partnership 4. ☐ Other (specify) _____

(h) Location of Pharmacy (please check one)

1. <input type="checkbox"/> Medical Office Building	2. <input type="checkbox"/> Shopping Center
3. <input type="checkbox"/> Stand Alone Building	4. <input type="checkbox"/> Grocery Store / Mass Merchant
5. <input type="checkbox"/> Outpatient Hospital	6. <input type="checkbox"/> Other (specify) _____

Does your pharmacy purchase drugs through the 340B Drug Pricing Program?

1. ☐ Yes 2. ☐ No

If yes, are prescriptions dispensed to Health First Colorado members provided from 340B inventory?

1. ☐ Yes 2. ☐ No

(ii) If you are a provider that participates in the 340B discount program, indicate if you are a Covered Entity or a Contract Pharmacy.

1. ☐ Covered Entity

Page 3

(j)	Do you own your building or lease from a related party (i.e., yourself, family member, or related corporation)? If so, mark yes and refer to page 6, line 5 for special instructions for reporting building rent. 1. <input type="checkbox"/> Yes 2. <input type="checkbox"/> No
(k)	How many hours per week is your pharmacy open? _____ Hours
(l)	How many years has a pharmacy operated at this location? _____ Years
(m)	Do you provide 24-hour emergency services for pharmaceuticals? 1. <input type="checkbox"/> Yes 2. <input type="checkbox"/> No
(n)	What percentage of prescriptions dispensed were generic products? _____ %

(o)	What is the approximate percent of your prescriptions dispensed to long-term care facilities or assisted living homes? _____%
(p)	Do you dispense in unit dose packaging to long-term care facilities (e.g., medisets, blister packs, etc.)? 1. <input type="checkbox"/> Yes 2. <input type="checkbox"/> No
	What is the approximate percent of all prescriptions dispensed in unit dose packaging? _____%
(q)	If you provide unit dose packaging, what percent of unit dose packaging is: 1. Purchased from manufacturers _____% 2. Prepared in the pharmacy _____%

(r)	What percent of total prescriptions filled are delivered? _____ %
(s)	What percent of Health First Colorado prescriptions filled are delivered? _____ %
	Does your pharmacy deliver prescriptions by mail (U.S. Postal Service, FedEx, UPS, etc.)? 1. <input type="checkbox"/> Yes 2. <input type="checkbox"/> No
(t)	If yes, what is the approximate percentage of the total number of prescriptions that are delivered by mail? _____ %
(u)	Are you presently providing specialty products or services (e.g., intravenous, infusion, enteral nutrition, clotting factors or derivatives, other pre-filled injectable or oral specialty products)? 1. <input type="checkbox"/> Yes 2. <input type="checkbox"/> No
	If yes, you must complete the product breakdown in section IC on page 4.
	What is the approximate percent of your prescriptions dispensed that are compounded? _____ %
(v)	What is the approximate percent of your prescriptions dispensed that are compounded in a sterile environment? _____ %
	For prescriptions that are compounded, what is the average number of minutes spent preparing a prescription by pharmacist and technicians? Pharmacist: _____ Technician: _____

List any additional information you feel contributes significantly to your cost of filling a prescription. Attach additional pages if needed.

[illegible]

Health First Colorado Professional Dispensing Fee Survey

Page 4

SECTION IC -- PHARMACEUTICAL PRODUCT BREAKDOWN FOR PHARMACIES DISPENSING SPECIALTY PRODUCTS

If you answered yes to question (u) in Section IA, provide a breakdown of the specialty and non-specialty products dispensed in your pharmacy using the categories described below. Please report the number of prescriptions and dollar amount of sales in one category only, for example some clotting factors can be prefilled, however place it in "clotting factors or derivatives" only and not in "prefilled or ready to inject products". Number of prescriptions dispensed and sales should match your fiscal reporting period for the cost survey and reconcile to prescriptions and sales reported on Page 2 lines (a) and (b) in Section IA. You should also respond to the questions below the product breakdown regarding services provided in association with the dispensing of specialty products.

Product Category	Number of Prescriptions	Dollar Amount of Sales	Line No.
Infusion Products			
Compounded infusion products			(1a)
Total Parenteral Nutrition (TPN) products			(1b)
Clotting factors or derivatives			(1c)
infusion supplies (e.g., tubing, needles, catheter flushes, IV site dressings, etc.)			(1d)
Total for Infusion Products			(1e)
Specialty			
Prefilled or ready to inject products			(2a)
Orals			(2b)
Total for Specialty			(2c)
Non-specialty			
Orals			(3a)
Topicals			(3b)
Injectables			(3c)
Compounded (non-infusion)			(3d)
Enteral nutrition			(3e)
All Other (including ophthalmic, otic, etc.)			(3f)
Total for Non-specialty			
Total (Should reconcile to prescriptions and Pharmacy Department sales reported in Section IA)			(4)

Additional Pharmacy Attribute Questions for Pharmacies Dispensing Specialty Products

(a) What percentage of prescriptions dispensed were for products with REMS (Risk Evaluation and Mitigation Strategy) reporting requirements?	
(b) What percentage of prescriptions dispensed were for products that had patient monitoring and compliance activities in place?	
(c) What percentage of prescriptions dispensed were for products that had special storage requirements (e.g., refrigeration, etc.)?	

SECTION ID -- OTHER INFORMATION

Use the section below to provide additional narrative description of the specialty products and services that are provided by your pharmacy. Use this section to describe any patient monitoring programs, patient compliance programs, case management services or disease management services provided by your pharmacy. Describe any specialized equipment used in your pharmacy. Attach additional pages if needed.

Health First Colorado Professional Dispensing Fee Survey

SECTION IIA -- PERSONNEL COSTS

Page 5

Complete each employee classification line in aggregate. If there are no employees in a specific category, please leave blank. Provide your best estimate of the percentage of time spent working in each category, the rows must equal 100%. Complete these forms using the same fiscal year as listed on page 2 and used for reporting overhead expenses.

Employee Classification	Estimate of FTEs ¹	Total Salaries (including bonuses and draws for owners) ²	Percent of Time Spent				Line No.
			Dispensing Activities ³	Other RX Related Duties ⁴	Non Rx Related Duties ⁵	Total ⁶	
Owner: Registered Pharmacist (if applicable)							(1)
Owner: Non-Pharmacist (if applicable)							(2)
Pharmacist							(3)
Technician							(4)
Delivery							(5)
Nurses							(6)
Customer service representatives							(7)
Billing							(8)
Other Admin							(9)
Contract Labor (Pharmacist)							(10)
Contract Labor (other)							(11)
Staff not related to RX dispensing			0.0%	0.0%	100.0%	100.0%	(12)
Total Salaries							(13)
Pension and Profit Sharing							(14)
Other Employee Benefits ⁷							(15)
Total Labor Expenses							(16)

¹ FTE: Full-time Equivalent. Take the total number of weekly hours worked by job category and divide by 40 hours to determine the total number of full time equivalent positions. Answer can be a decimal. Round answer to nearest tenth. Ex. 3 pharmacists, pharmacist 1 = 38 hours per week, Pharmacist 2 = 22 hours per week, Pharmacist 3 = 16 hours per week. Calculation = $38 + 22 + 16 = 76 \div 40 = 1.90$ FTE.

² Total Salaries should include any bonuses and/or draws from the owners.

³ Dispensing Activities should include any direct prescription dispensing activities. Direct prescription dispensing activities as defined in the Centers for Medicare & Medicaid Services final rule (2/1/2016) at §447.502 include the pharmacist time associated with ensuring that possession of the appropriate covered outpatient drug is transferred to a Medicaid beneficiary. This category includes, but is not limited to, a pharmacist's time in checking the computer for information about an individual's coverage, performing drug utilization review and preferred drug list review activities, measurement or mixing of the covered outpatient drug, filling the container, beneficiary counseling, physically providing the completed prescription to the Medicaid beneficiary, delivery, and special packaging.

⁴ Other Rx Related Duties include, but are not limited to, time spent maintaining the facility and equipment necessary to operate the pharmacy, third party reimbursement claims management, ordering and stocking prescription ingredients, taking inventory and maintaining prescription files.

⁵ Non Rx Related Duties should include any duties that are not related to the pharmacy department.

⁶ Totals for the Percent of Time Spent Breakdown. Columns must total 100%.

⁷ Other Employee Benefits includes employee medical insurance, disability insurance, education assistance, etc.

Health First Colorado Professional Dispensing Fee Survey

SECTION IIB -- OVERHEAD EXPENSES

Page 6

Complete this section using your internal financial statement or tax return for the **same fiscal year as listed on Page 2**. You should only use a tax return if the only store reported on the return is the store being surveyed. If you are using a tax return, the line numbers in the left columns correspond to federal income tax return lines. Use your most recently completed fiscal year for which financial records are available and completed (e.g., December 31, 2023, or December 31, 2022, if 2023 records are not yet complete). **If you prefer, you may submit a copy of your financial statement and/or tax return (including all applicable schedules) and Myers and Stauffer can complete Sections IIB and III (pages 6, 7, and 8).**

*** Notes about tax return line references**

Form 1040, Sched C, line 27a is for "other expenses" and a detailed breakdown of this category is typically reported on page 2, Part V of the form. Form 1065 (line 20), Form 1120 (line 26) and Form 1120S (line 19) are for "other deductions" and there are typically detailed breakdowns of the expenses in this category in the "Statements" attached to the returns.

2023 Tax Form					Round all amounts to nearest dollar or whole number.	Expense Amount Reported	Myers and Stauffer Use Only	Line No.
1040 Schedule C	1065	1120	1120S					
13	16a	20	14	Depreciation (this fiscal year only - not accumulated)				(1)
23	14	17	12	Taxes	(a) Personal Property Taxes Paid			(2)
23	14	17	12		(b) Real Estate Taxes			(3)
23	14	17	12		(c) Payroll Taxes			(4)
					Any other taxes should be itemized separately on page 7.			
				Rent - Building (if building is leased from a related party then report ownership expenses of interest, taxes, insurance and maintenance)				(5)
20b	13	16	11	Rent - Equipment and Other				(6)
21	11	14	9	Repairs & maintenance				(7)
15	20*	26*	19*	Insurance (other than employee medical)				(8)
16a&b	15	18	13	Interest				(9)
17	20*	26*	19*	Legal and Professional Fees				(10)
27a*	20*	26*	19*	Dues, Publications, and Subscriptions				(11)
27a*	12	15	10	Bad Debts (this fiscal year only - not accumulated)				(12)
n/a	n/a	19	n/a	Charitable Contributions				(13)
25	20*	26*	19*	(a) Telephone				(14)
25	20*	26*	19*	(b) Heat, Water, Lights, Sewer, Trash and other Utilities				(15)
18&22	20*	26*	19*	Operating and Office Supplies (exclude prescription containers and labels)				(16)
8	20*	22	16	Advertising/Marketing				(17)
27a*	20*	26*	19*	Computer Expenses (systems, software, maintenance, etc.)				(18)
9,27a*	20*	26*	19*	Prescription Delivery Expenses (wages to a driver should only be reported on pg. 5)				(19)
27a*	20*	26*	19*	Prescription Containers and Labels				(20)
24a&b	20*	26*	19*	Travel, Meals and Entertainment				(21)
27a*	20*	26*	19*	Switching / E-Prescribing Fees				(22)
27a*	20*	26*	19*	Security / Alarm				(23)
27a*	20*	26*	19*	Bank Charges				(24)
27a*	20*	26*	19*	Credit Card Processing Fees				(25)
27a*	20*	26*	19*	Interior Maintenance (housekeeping, janitorial, etc.)				(26)
27a*	20*	26*	19*	Exterior Maintenance (lawn care, snow removal etc.)				(27)
27a*	20*	26*	19*	Pharmacy Licenses / Permits				(28)
27a*	20*	26*	19*	Employee Training and Certification				(29)
27a*	20*	26*	19*	Continuing Education				(30)
Total Page 6 overhead expenses (lines 1 to 30)								(31)

Health First Colorado Professional Dispensing Fee Survey

SECTION IIB -- OVERHEAD EXPENSES, CONTINUED
(Round all amounts to nearest dollar or whole number.)

Other non-labor expenses not included on lines (1) through (30)

Examples: Franchise fees, other taxes not reported in Section IIB (a) (page 6), accreditation and/or certification fees, restocking fees, postage, administrative expenses, amortization, etc. Specify each item and the corresponding amount. **Note that labor expenses are reported in Section IIA (page 5).** For corporate overhead expenses allocated to the individual store, please attach documentation to establish the expenses included in the allocation and describe the allocation basis.

	Expense Amount Reported	Myers and Stauffer Use Only	Line No.
			(32a)
			(32b)
			(32c)
			(32d)
			(32e)
			(32f)
			(32g)
			(32h)
			(32i)
			(32j)
			(32k)
			(32l)
			(32m)
			(32n)
			(32o)
			(32p)
			(32q)
			(32r)
			(32s)
			(32t)
Total page 7 overhead expenses (lines 32a to 32t)			(33)

Health First Colorado Professional Dispensing Fee Survey

Page 8

SECTION III -- RECONCILIATION WITH FINANCIAL STATEMENT OR TAX RETURN

The purpose of this reconciliation is to ensure that all expenses have been included and that none have been duplicated. Complete these forms using the same fiscal year which was used to report overhead and labor expenses.

		Cost Survey Amounts	Financial Statement or Tax Return Amounts
(1)	Total Expenses per Financial Statement or Tax Return ¹		
(2)	Total Labor Expenses (total from page 5, line 16)		
(3)	Overhead Expenses (total from page 6, line 31)		
(4)	Overhead Expenses, Continued (total from page 7, line 33)		
(5)	Total Expenses per Cost Survey [add Lines (2), (3), and (4)]		
	Specify Items with Amounts that are on Cost Survey but not on Financial Statement or Tax Return		
(6a)			
(6b)			
(6c)			
(6d)			
(6e)			
	Specify Items with Amounts that are on Financial Statement or Tax Return but not on this Cost Survey		
(7a)			
(7b)			
(7c)			
(7d)			
(7e)			
(8)	Total [add Lines (1) to (7e)] Column Totals Must be Equal		

¹ If you used a tax form to complete the cost of dispensing survey, the total expenses per tax return will be found on the following lines for 2023 tax forms:

1040C - Line 28
 1065 - line 21
 1120 - line 27
 1120S - line 20

Exhibit 2

Informational Letter from the Colorado Department of Health Care Policy and Financing Regarding Pharmacy Dispensing Cost Survey (Independent and Chain Pharmacies)



COLORADO
Department of Health Care
Policy & Financing

303 E. 17th Avenue
Denver, CO 80203

June 11, 2024

RE: Health First Colorado Professional Dispensing Fee Survey

Dear Pharmacy Owner/Manager:

The Colorado Department of Health Care Policy & Financing (DHCPF), the agency responsible for administering Health First Colorado (Colorado's Medicaid Program), has contracted with the firm Myers and Stauffer LC, a national Certified Public Accounting firm, to conduct a survey to assess the cost of dispensing prescriptions to Medicaid fee-for-service clients.

The Centers for Medicare and Medicaid Services (CMS) published regulation, Federal Covered Outpatient Drugs Final Rule (CMS-2345-FC), requires State Medicaid agencies to adopt pharmacy reimbursement methodologies to pay pharmacies for the actual acquisition cost of drugs plus a professional dispensing fee. The pharmacy cost of dispensing survey will provide DHCPF with information to evaluate the professional dispensing fee component of the Health First Colorado fee-for service pharmacy reimbursement.

DHCPF has engaged Myers and Stauffer, an accounting firm with extensive experience in pharmacy cost of dispensing surveys, to conduct the survey. They have conducted similar surveys in many states. Myers and Stauffer and DHCPF will hold the information you provide to them in confidence, will disclose it only in aggregate form and never identify your pharmacy, and will use the information only for the purpose of conducting and reporting this survey for DHCPF. Your information will not be used for any other purpose.

Please provide the requested information on the enclosed survey tool and submit it to Myers and Stauffer timely. It is crucial that we have complete participation with this survey from each chain, independent, and specialty pharmacy. You should return completed survey(s) directly to Myers and Stauffer LC, no later than July 30, 2024.

We appreciate your continued service to our Medicaid participants, as well as your cooperation in this important study. Please direct questions about the survey to Myers and Stauffer at 1-800-374-6858 or disp_survey@mslc.com.

Sincerely,

Tom Leahey
Director, Pharmacy Office

Our mission is to improve health care access and outcomes for the people we serve while demonstrating sound stewardship of financial resources.
hcpf.colorado.gov



Exhibit 3a

**Letter from Myers and Stauffer LC Regarding
Pharmacy Dispensing Cost Survey
(Independent Pharmacies)**



**MYERS AND
STAUFFER_{LC}**
CERTIFIED PUBLIC ACCOUNTANTS

June 11, 2024

Re: Health First Colorado Professional Dispensing Fee Survey

Dear Pharmacy Owner/Manager:

The Colorado Department of Health Care Policy & Financing (DHCPF) the agency responsible for administering Health First Colorado (Colorado's Medicaid Program), has contracted with Myers and Stauffer LC, a national Certified Public Accounting firm, to conduct a pharmacy cost of dispensing survey as part of the process to evaluate the professional dispensing fee component of the Health First Colorado fee-for-service pharmacy reimbursement. All pharmacies enrolled in the Health First Colorado fee-for-service pharmacy program are requested to participate in the survey according to the following instructions:

1. Complete the enclosed "Health First Colorado Professional Dispensing Fee Survey".
2. For your convenience, Myers and Stauffer LC will complete Section IIB "Overhead Expenses" and Section III "Reconciliation with Financial Statement or Tax Return" for you if you submit a copy of your store financial statements or your business federal income tax return (Forms 1065, 1120, 1120S or Schedule C of Form 1040 and accompanying schedules). The financial statements or federal income tax form must include information for only a single store/location. You will still need to complete the other sections of the survey.
3. If your financial statements or tax return have not been completed for your most recent fiscal year, complete the survey using your prior year's financial statements (or tax return) and the corresponding prescription data for that year. Myers and Stauffer will apply an appropriate inflation factor.
4. Retain a copy of the completed survey forms for your records.

It is very important that all pharmacies cooperate fully by filing an accurate cost survey. Pharmacies are encouraged to return the required information as soon as possible, **but forms must be returned no later than July 30, 2024.**

DEDICATED TO GOVERNMENT HEALTH PROGRAMS

700 W 47th Street, Ste. 1100 | Kansas City, MO 64112
Phone: 816.945.5300 | Toll Free: 800.374.6858 | Fax: 816.945.5301
myersandstauffer.com

Electronic format of the survey tool:

We strongly encourage pharmacies to respond in an electronic format. You may obtain an Excel spreadsheet version of the survey by contacting Myers and Stauffer LC at (800) 374-6858 or by email at disp_survey@mslc.com. The electronic version of the survey collects the same information as the paper version and will automatically complete certain calculations. Surveys that are completed electronically may be returned via email to the same email address with the Excel survey file and other supporting documentation attached.

If you prefer to respond in a paper format:

Send completed forms to:

Myers and Stauffer LC
Certified Public Accountants
Attn: Health First Colorado Pharmacy Cost of Dispensing Survey
700 W. 47th Street, Suite 1100
Kansas City, MO 64112

You may return the survey using the enclosed Business Reply Label with any envelope. Postage will be paid by Myers and Stauffer LC.

Whether you complete the survey in electronic or paper format, we recommend that you retain a copy of the completed survey forms for your records.

Pharmacies are encouraged to return the required information as soon as possible, but forms must be returned no later than July 30, 2024.

It is very important that pharmacies respond with accurate information. All submitted surveys will be reviewed and validated by staff at Myers and Stauffer LC. If the review yields the need for additional inquiries, Myers and Stauffer LC staff will contact you.

Cost of dispensing surveys and supporting documentation submitted to Myers and Stauffer LC for this project will remain strictly confidential.

Myers and Stauffer LC will be conducting informational meetings via telephonic/ internet-based webinars to further explain the survey. At these meetings, Myers and Stauffer LC will present more details about the survey process, discuss what information is being requested and answer any questions regarding the survey form. Please refer to the enclosed information meeting flyer for further information on the dates and times of these webinar meetings and instructions for registration.

Health First Colorado Professional Dispensing Fee Survey

June 11, 2024

Page 3 of 3

If you have any questions, please call toll free at 1-800-374-6858 or send an email to disp_survey@mslc.com.

Your cooperation in providing the information for this survey is greatly appreciated.

Sincerely,



Matt Hill, CPA, CPhT

Senior Manager

mhill@mslc.com

Enclosures: Letter from the Colorado Department of Health Care Policy & Financing
Health First Colorado Professional Dispensing Fee Survey Form
Myers and Stauffer LC Business Reply Label
Informational Meeting Invitation

Exhibit 3b

**Letter from Myers and Stauffer LC Regarding
Pharmacy Dispensing Cost Survey (Chain
Pharmacies)**



**MYERS AND
STAUFFER_{LC}**
CERTIFIED PUBLIC ACCOUNTANTS

June 11, 2024

Re: Health First Colorado Professional Dispensing Fee Survey

Dear Pharmacy Owner/Manager:

The Colorado Department of Health Care Policy & Financing (DHCPF) the agency responsible for administering Health First Colorado (Colorado's Medicaid Program), has contracted with Myers and Stauffer LC, a national Certified Public Accounting firm, to conduct a pharmacy cost of dispensing survey as part of the process to evaluate the professional dispensing fee component of the Health First Colorado fee-for-service pharmacy reimbursement. All pharmacies enrolled in the Health First Colorado fee-for-service pharmacy program are requested to participate in the survey.

Enclosed is the "Health First Colorado Professional Dispensing Fee Survey" form. You may respond to the survey using either an electronic or paper format. You will need to submit survey information for each pharmacy that participates in the Health First Colorado program. In past surveys performed by Myers and Stauffer LC, most pharmacy chains have preferred to respond to the survey in electronic format.

We have also enclosed a list of your organizations pharmacies which participate in the Health First Colorado program. Pharmacy information is presented as shown in records from DHCPF. If this list is inaccurate, please notify Myers and Stauffer LC.

It is very important that all pharmacies cooperate fully by filing an accurate cost survey. Pharmacies are encouraged to return the required information as soon as possible, **but forms must be returned no later than July 30, 2024.**

If you prefer to respond in an electronic format:

You should submit survey data for each store on the attached list and any additional stores/locations that participate in the Health First Colorado program using an Excel spreadsheet template provided by Myers and Stauffer LC. To obtain the Excel spreadsheet, send a request by email to disp_survey@mslc.com or contact Myers and Stauffer LC staff directly (contact information below). Surveys that are completed electronically may be submitted via email or contact Myers and Stauffer LC for access to our Secure File Transfer Protocol portal.

If you prefer to respond in a paper format:

*You will still be required to submit a completed survey for each store on the attached list and any **additional stores/locations** that participate in the Health First Colorado program.* You may make copies of the enclosed survey form as needed or contact Myers and Stauffer LC and request additional copies of the survey form. Please send completed forms to:

Myers and Stauffer LC
Certified Public Accountants
Attn: Health First Colorado Pharmacy Cost of Dispensing Survey
700 W. 47th Street, Suite 1100
Kansas City, MO 64112

You may return the surveys using the enclosed Business Reply Label with an envelope. Postage will be paid by Myers and Stauffer LC.

Whether you complete the survey in electronic or paper format, we recommend that you retain a copy of the completed survey forms for your records. Also, please describe any cost allocations used in preparing the income statement such as administrative expense, etc. Warehousing and distribution costs should be shown in cost of goods sold or listed separately.

Pharmacies are encouraged to return the required information as soon as possible, but forms must be returned no later than July 30, 2024.

It is very important that pharmacies respond with accurate information. All submitted surveys will be reviewed and validated by staff at Myers and Stauffer LC. If the review yields the need for additional inquiries, Myers and Stauffer LC staff will contact you.

Cost of dispensing surveys and supporting documentation submitted to Myers and Stauffer LC for this project will remain strictly confidential.

Myers and Stauffer LC will be conducting informational meetings via telephonic/ internet-based webinars to further explain the survey. At these meetings, Myers and Stauffer LC will present more details about the survey process, discuss what information is being requested and answer any questions about regarding the survey form. Please refer to the enclosed information meeting flyer for further information on the dates and times of these webinar meetings and instructions for registration.

If you have any questions, please call toll free at 1-800-374-6858 or send an email to disp_survey@mslc.com.

Health First Colorado Professional Dispensing Fee Survey

June 11, 2024

Page 3 of 3

Your cooperation in providing the information for this survey is greatly appreciated.

Sincerely,



Matt Hill, CPA, CPhT

Senior Manager

mhill@mslc.com

Enclosures: Letter from the Colorado Department of Health Care Policy & Financing
Health First Colorado Professional Dispensing Fee Survey Form
List of Pharmacies that participate in the Health First Colorado program
Myers and Stauffer LC Business Reply Label
Informational Meeting Invitation

Exhibit 4
Informational Meeting Flyer

Informational Meetings

Health First Colorado (Colorado's Medicaid Program)

Pharmacy Cost of Dispensing Survey

The Colorado Department of Health Care Policy & Financing (DHCPF) the agency responsible for administering Health First Colorado (Colorado's Medicaid Program), is conducting a pharmacy cost of dispensing survey. The survey results will be used to evaluate the Health First Colorado pharmacy reimbursement methodology.

DHCPF has engaged Myers and Stauffer LC to perform the pharmacy cost of dispensing study. To help prepare pharmacy owners and managers to participate in the survey, Myers and Stauffer LC, will be conducting informational meetings via telephonic/internet-based webinars. At these meetings, Myers and Stauffer LC will present more details about the survey process, discuss what information is being requested and answer questions regarding the survey form.

Pharmacies are invited to attend one of the informational meetings. **Attendance at one of the webinar sessions requires a reservation.** Please call or email Myers and Stauffer LC for a reservation and further meeting details.

If you are unable to attend a webinar or have questions about the survey, Myers and Stauffer LC offers a help desk to answer survey questions.

To reach Myers and Stauffer LC:

1-800-374-6858

or

disp_survey@mslc.com

Schedule of Informational Meetings (via telephone and Internet)

Date	Time (Mountain)
Thursday June 20, 2024	3:00 PM – 4:00 PM
Tuesday June 25, 2024	8:30 AM – 9:30 AM



Exhibit 5

**First Survey Reminder Postcard
(Independent and Chain Pharmacies)**

FINAL REMINDER

Due Date Extended to: August 13, 2024

Colorado Department of Health Care Policy & Financing Professional Dispensing Survey



MYERS AND
STAUFFER LC

The Colorado Department of Health Care Policy & Financing (DHCPF) has contracted with Myers and Stauffer to conduct a pharmacy cost of dispensing survey. All pharmacy providers that participate in the Health First Colorado (Colorado's Medicaid Program) are requested to participate in the survey.

Several weeks ago you should have received a copy of the dispensing cost survey form and corresponding instructions. Surveys were sent with a due date of July 30, 2024. In order to allow pharmacies more time to respond to the dispensing cost survey, Myers and Stauffer has been instructed by the DHCPF to continue to accept surveys through August 13, 2024. This will be the final extension of the survey due date. Your participation in the dispensing cost survey is very important. This survey is being used by the DHCPF to evaluate future reimbursement rates.

If you have not received a survey form or have misplaced your survey form, you can contact Myers and Stauffer toll free at 1-800-374-6858 or via email to disp_survey@mslc.com. If you have any questions regarding the survey, please contact Myers and Stauffer. You may also request an Excel template of the survey form if you prefer to respond in an electronic format.

Your cooperation in providing the information for this survey is greatly appreciated.

Surveys are due no later than
August 13, 2024



MYERS AND
STAUFFER LC

Exhibit 6

**Second Survey Reminder/Extension Postcard
(Independent and Chain Pharmacies)**

REMINDER

Survey Due July 30, 2024

Colorado Department of Health Care Policy & Financing Professional Dispensing Survey



**MYERS^{AND}
STAUFFER^{LC}**

The Colorado Department of Health Care Policy & Financing (DHCPF) has contracted with Myers and Stauffer to conduct a pharmacy cost of dispensing survey. All pharmacy providers that participate in Health First Colorado (Colorado's Medicaid Program) are requested to participate in the survey.

You should have received a letter from DHCPF, Myers and Stauffer, and a copy of the pharmacy cost of dispensing survey form. Your participation in the cost of dispensing survey is important. This survey is being used by the DHCPF to evaluate future fee-for-service pharmacy reimbursement rates.

If you have not received a survey form or have misplaced your survey form, you can contact Myers and Stauffer toll free at 1-800-374-6858 or via email to disp_survey@mslc.com.

If you have any questions regarding the survey, please contact Myers and Stauffer. You may also request an Excel template of the survey form if you prefer to respond in an electronic format.

Your cooperation in providing the information for this survey is greatly appreciated.

Surveys are due
July 30, 2024



MYERS AND
STAUFFER L.C.

Exhibit 7

Table of Inflation Factors for Dispensing Cost Survey

Table of Inflation Factors for Dispensing Cost Survey

Colorado Department of Health Care Policy & Financing

Fiscal Year End Date	Midpoint Date	Midpoint Index ¹	Terminal Month Index (6/30/2024) ¹	Inflation Factor	Number of Stores with Year End Date
12/31/2022	6/30/2022	152.1	165.5	1.088	14
1/31/2023	7/31/2022	152.7	165.5	1.084	0
2/28/2023	8/31/2022	153.3	165.5	1.08	0
3/31/2023	9/30/2022	153.9	165.5	1.075	2
4/30/2023	10/31/2022	154.5	165.5	1.071	0
5/31/2023	11/30/2022	155.0	165.5	1.068	2
6/30/2023	12/31/2022	155.6	165.5	1.064	6
7/31/2023	1/31/2023	156.2	165.5	1.06	0
8/31/2023	2/28/2023	156.8	165.5	1.055	0
9/30/2023	3/31/2023	157.4	165.5	1.051	3
10/31/2023	4/30/2023	157.9	165.5	1.048	2
11/30/2023	5/31/2023	158.5	165.5	1.044	1
12/31/2023	6/30/2023	159.0	165.5	1.041	293
1/31/2024	7/31/2023	159.5	165.5	1.038	155
2/29/2024	8/31/2023	160.1	165.5	1.034	0
3/31/2024	9/30/2023	160.6	165.5	1.031	1
4/30/2024	10/31/2023	161.1	165.5	1.027	0
5/31/2024	11/30/2023	161.6	165.5	1.024	0
6/30/2024	12/31/2023	162.1	165.5	1.021	23
Total Number of Stores	-	-	-	-	502

¹ Midpoint and terminal month indices were obtained from the Employment Cost Index, (all civilian; seasonally adjusted) as published by the Bureau of Labor Statistics (BLS). Quarterly indices published by BLS were applied to last month in each quarter; indices for other months are estimated by linear interpolation.

Inflation factors are intended to reflect cost changes from the middle of the reporting period of a particular pharmacy to a common fiscal period ending December 31, 2024 (specifically from the midpoint of the pharmacy's fiscal year to June 30, 2024 which is the midpoint of the fiscal period ending December 31, 2024).

Exhibit 8

Histogram of Pharmacy Dispensing Cost

A histogram of the pharmacy dispensing costs for Independent, Chain, and Specialty pharmacies showing that costs range from \$5 per prescription to greater than \$40 per prescription with the majority of pharmacies having a per prescription cost of dispensing between \$7 and \$15.

Histogram of Pharmacy Dispensing Cost

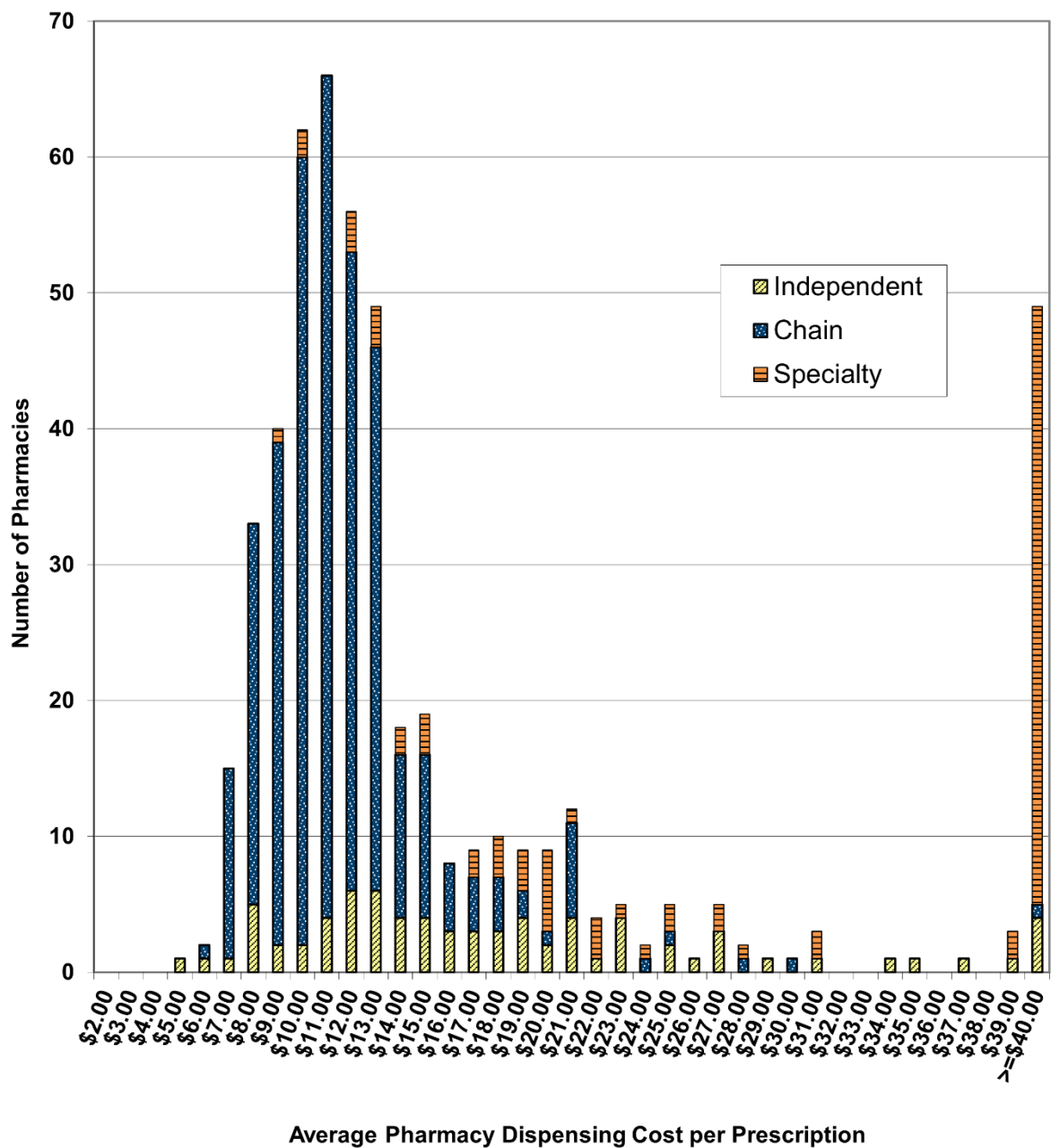


Exhibit 9

Pharmacy Cost of Dispensing Survey Data – Statistical Summary

Pharmacy Cost of Dispensing Survey
Statistical Summary
Colorado Department of Health Care Policy & Financing

Characteristic	Pharmacy Dispensing Cost per Prescription ^{1/} Measurements of Central Tendency/ n: Number of Pharmacies	Pharmacy Dispensing Cost per Prescription ^{1/} Measurements of Central Tendency/ Average Total Prescription Volume	Pharmacy Dispensing Cost per Prescription ^{1/} Measurements of Central Tendency/ Average Medicaid Prescription Volume	Pharmacy Dispensing Cost per Prescription ^{1/} Measurements of Central Tendency/ (Means) Mean	Pharmacy Dispensing Cost per Prescription ^{1/} Measurements of Central Tendency/ (Means) Weighted by Total Rx Volume	Pharmacy Dispensing Cost per Prescription ^{1/} Measurements of Central Tendency/ (Means) Weighted by Medicaid Rx Volume	Pharmacy Dispensing Cost per Prescription ^{1/} Measurements of Central Tendency/ (Medians) Median	Pharmacy Dispensing Cost per Prescription ^{1/} Measurements of Central Tendency/ (Medians) Weighted by Total Rx Volume	Pharmacy Dispensing Cost per Prescription ^{1/} Measurements of Central Tendency/ (Medians) Weighted by Medicaid Rx Volume	Pharmacy Dispensing Cost per Prescription ^{1/} Measurements of Central Tendency/ Standard Deviation
All Pharmacies in Sample	502	111,582	9,224	\$30.31	\$31.76	\$14.89	\$12.58	\$12.52	\$11.51	\$74.40
Non Specialty Pharmacies ²	415	108,713	9,726	\$13.55	\$12.84	\$11.99	\$11.85	\$11.20	\$11.10	\$7.03
Specialty Pharmacies ²	87	125,266	6,829	\$110.23	\$110.09	\$34.55	\$44.43	\$119.41	\$18.98	\$155.54
Specialty Pharmacy Breakdowns ²	-	-	-	-	-	-	-	-	-	-
Clotting Factor	5	27,172	189	\$334.41	\$112.13	\$315.63	\$97.08	\$97.08	\$304.67	\$444.75
Compounded Infusion / Intravenous	4	36,731	4,678	\$216.23	\$273.69	\$235.86	\$222.72	\$237.01	\$237.01	\$111.50
Other	78	136,094	7,365	\$90.42	\$107.80	\$27.54	\$29.65	\$119.41	\$18.83	\$109.62
Annual Rx Volume (all pharmacies):	-	-	-	-	-	-	-	-	-	-
Other than DHCPF rural pharmacies	-	-	-	-	-	-	-	-	-	-
0 to 59,999	194	39,056	6,690	\$35.53	\$22.58	\$19.68	\$15.50	\$14.67	\$14.25	\$91.56
60,000 to 89,999	150	74,394	9,241	\$21.13	\$20.28	\$12.65	\$11.73	\$11.64	\$11.63	\$46.77
90,000 to 109,999	70	99,319	11,386	\$26.32	\$25.57	\$10.50	\$10.12	\$10.09	\$9.93	\$69.82
110,000 or greater	80	374,628	13,685	\$39.98	\$40.01	\$15.36	\$10.97	\$16.18	\$8.72	\$76.64
DHCPF rural pharmacies ⁴	8	44,433	6,827	\$13.80	\$12.89	\$12.47	\$13.18	\$11.56	\$9.91	\$5.06
Annual Rx Volume (non-specialty pharmacies):	-	-	-	-	-	-	-	-	-	-
Other than DHCPF rural pharmacies	-	-	-	-	-	-	-	-	-	-
0 to 59,999	146	42,324	6,580	\$17.70	\$16.09	\$15.65	\$14.76	\$13.95	\$13.95	\$9.80
60,000 to 89,999	139	74,739	9,658	\$11.77	\$11.71	\$12.22	\$11.62	\$11.50	\$11.63	\$2.23
90,000 to 109,999	66	99,577	12,070	\$10.42	\$10.40	\$10.29	\$10.00	\$9.98	\$9.93	\$2.38
110,000 or greater	56	386,076	15,752	\$10.83	\$13.18	\$9.18	\$9.32	\$9.99	\$8.36	\$4.85
DHCPF rural pharmacies ⁴	8	44,433	6,827	\$13.80	\$12.89	\$12.47	\$13.18	\$11.56	\$9.91	\$5.06
Non-Specialty Pharmacies Only	-	-	-	-	-	-	-	-	-	-
Annual Rx Volume:	-	-	-	-	-	-	-	-	-	-
0 to 59,999	153	42,290	6,585	\$17.55	\$15.98	\$15.52	\$14.79	\$14.03	\$13.95	\$9.65
60,000 to 89,999	140	74,665	9,644	\$11.75	\$11.70	\$12.21	\$11.57	\$11.47	\$11.62	\$2.23
90,000 to 109,999	66	99,577	12,070	\$10.42	\$10.40	\$10.29	\$10.00	\$9.98	\$9.93	\$2.38
110,000 or greater	56	386,076	15,752	\$10.83	\$13.18	\$9.18	\$9.32	\$9.99	\$8.36	\$4.85
Affiliation:	-	-	-	-	-	-	-	-	-	-
Chain	339	86,194	10,422	\$12.14	\$11.20	\$11.19	\$11.47	\$10.84	\$10.98	\$3.87
Independent	76	209,162	6,622	\$19.85	\$15.85	\$17.67	\$16.29	\$16.18	\$15.92	\$12.50
Affiliation (In State Only):	-	-	-	-	-	-	-	-	-	-
Chain (In State)	333	79,941	10,609	\$12.01	\$11.25	\$11.19	\$11.47	\$10.98	\$10.98	\$3.15
Independent (In State)	64	63,003	7,489	\$19.61	\$14.57	\$17.98	\$16.29	\$13.85	\$15.92	\$12.11
Location (Non-Rural vs. Rural): ⁴	-	-	-	-	-	-	-	-	-	-
In State Non-rural	389	77,884	10,174	\$13.22	\$11.67	\$11.99	\$11.84	\$11.07	\$11.12	\$6.31
DHCPF Rural	8	44,433	6,827	\$13.80	\$12.89	\$12.47	\$13.18	\$11.56	\$9.91	\$5.06
All In State (Non-Rural and DHCPF Rural)	397	77,210	10,106	\$13.23	\$11.69	\$12.00	\$11.84	\$11.07	\$11.12	\$6.28
Out of State	18	803,528	1,346	\$20.57	\$15.27	\$11.46	\$15.01	\$16.18	\$7.82	\$15.19
Non Specialty Pharmacies Only	-	-	-	-	-	-	-	-	-	-
Annual Medicaid Rx Volume: ⁵	-	-	-	-	-	-	-	-	-	-
0 to 4,999	115	161,998	2,276	\$17.02	\$15.33	\$14.39	\$13.55	\$13.85	\$12.77	\$10.88
5,000 to 10,999	158	68,845	7,792	\$12.78	\$11.84	\$12.73	\$11.91	\$11.23	\$11.89	\$4.45
11,000 and Higher	142	109,920	17,913	\$11.61	\$10.56	\$11.39	\$10.96	\$10.02	\$10.73	\$3.64
Medicaid Utilization Ratio: ⁵	-	-	-	-	-	-	-	-	-	-
0.0% to 7.49%	118	195,143	3,057	\$14.92	\$13.97	\$11.71	\$12.45	\$11.97	\$10.85	\$8.42
7.5% to 15.99%	158	78,077	8,881	\$12.18	\$11.26	\$11.40	\$11.49	\$10.95	\$11.04	\$3.79
16.0% and Higher	139	70,165	16,349	\$13.95	\$12.14	\$12.40	\$12.23	\$11.20	\$11.27	\$8.25
Institutional:	-	-	-	-	-	-	-	-	-	-
LTC Institutional Pharmacies ⁶	19	798,030	6,327	\$17.46	\$13.99	\$16.98	\$13.85	\$12.85	\$13.85	\$10.29
Non-LTC Institutional Pharmacies ⁶	396	75,640	9,889	\$13.37	\$12.25	\$11.84	\$11.84	\$11.10	\$11.10	\$6.80
Unit Dose:	-	-	-	-	-	-	-	-	-	-
Does dispense unit dose	23	581,670	6,173	\$17.43	\$14.96	\$16.30	\$14.95	\$14.95	\$13.85	\$10.04
Does not dispense unit dose	392	80,963	9,935	\$13.33	\$11.94	\$11.84	\$11.80	\$11.02	\$11.10	\$6.77
Provision of Compounding Services	-	-	-	-	-	-	-	-	-	-
Provides compounding (>=10% of Rx's)	8	91,802	2,797	\$27.11	\$20.48	\$19.80	\$25.27	\$14.85	\$14.85	\$15.51
Compounding <10% of Rx's	407	109,045	9,863	\$13.29	\$12.71	\$11.95	\$11.83	\$11.12	\$11.10	\$6.53
340B Pharmacy Status	-	-	-	-	-	-	-	-	-	-
Participates in 340B and provides 340B pricing to Medicaid	17	75,070	12,353	\$14.57	\$13.70	\$14.28	\$13.22	\$13.22	\$13.22	\$6.00
Does not participate in 340B or does not provide 340B pricing to Medicaid	398	110,150	9,614	\$13.51	\$12.81	\$11.87	\$11.85	\$11.16	\$11.07	\$7.08

Notes:
1) All pharmacy dispensing costs are inflated to the common point of 6/30/2024 (i.e., midpoint of a fiscal year ending 12/31/2024).
2) For purposes of this report a "specialty pharmacy" is one that reported sales for intravenous, home infusion, clotting factor and/or other specialty services of 30% or more of total prescription sales.
3) For the purposes of this report, specialty pharmacies were divided into three categories: clotting factor, infusion specialty, and other specialty.
4) Rural pharmacy is defined in the Code of Colorado Regulations at 10 CCR 2505-10 8.800.A.36 and means any pharmacy that is the only pharmacy within a twenty mile radius. DHCPF provided a list of pharmacies that have been designated as rural.
5) Medicaid volume is based on the time period of June 1, 2023 to May 31, 2024.
6) For purposes of this report an "LTC Institutional Pharmacy" is one that reported dispensing 25% or more of prescriptions to long-term care facilities.

Exhibit 10

Charts Relating to Pharmacy Total Prescription Volume

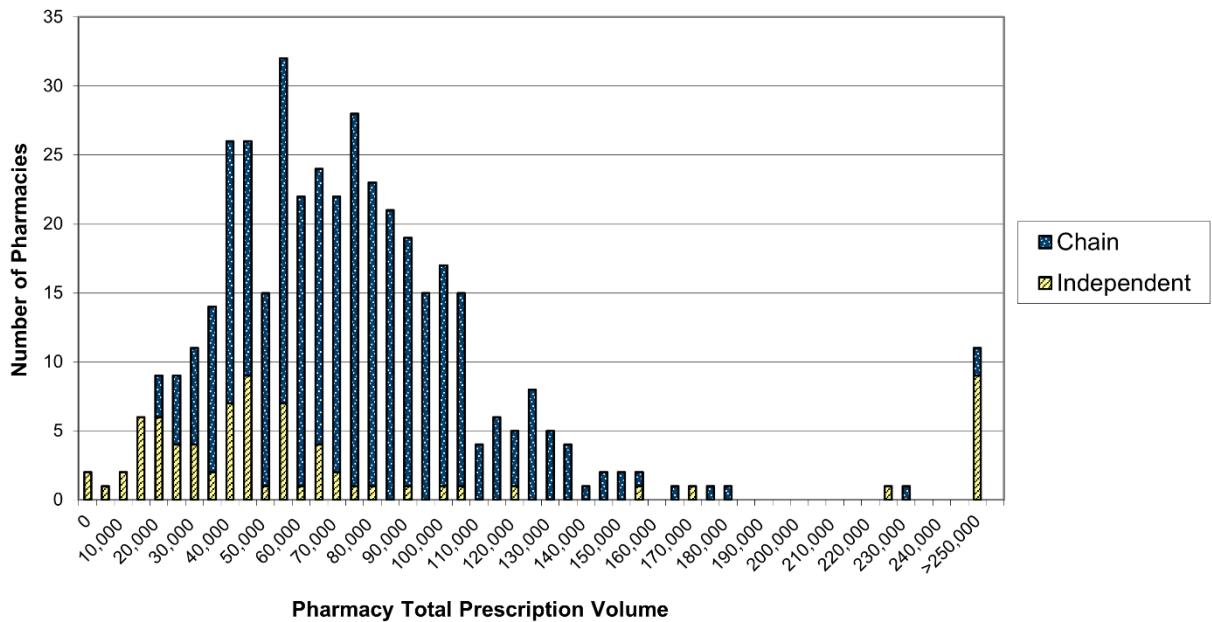
A: Histogram of Pharmacy Total Prescription Volume

A histogram of pharmacy total annual prescription volume for non-specialty chain and independent pharmacies which shows that independent pharmacies typically have less volume than chain pharmacies and that the majority of pharmacies dispensing between 30,000 and 110,000 total prescriptions per year.

B: Scatter Plot of Relationship between Dispensing Cost per Prescription and Total Prescription Volume

A scatter plot of the relationship between dispensing cost per prescription and total prescription volume showing a relationship with the more prescription dispensed, the lower the cost to dispense each prescription.

Histogram of Pharmacy Total Prescription Volume



Scatter Plot of Relationship Between Dispensing Cost per Prescription and Total Prescription Volume (Non-Specialty Pharmacies, Total Prescription Volume < 300,000)

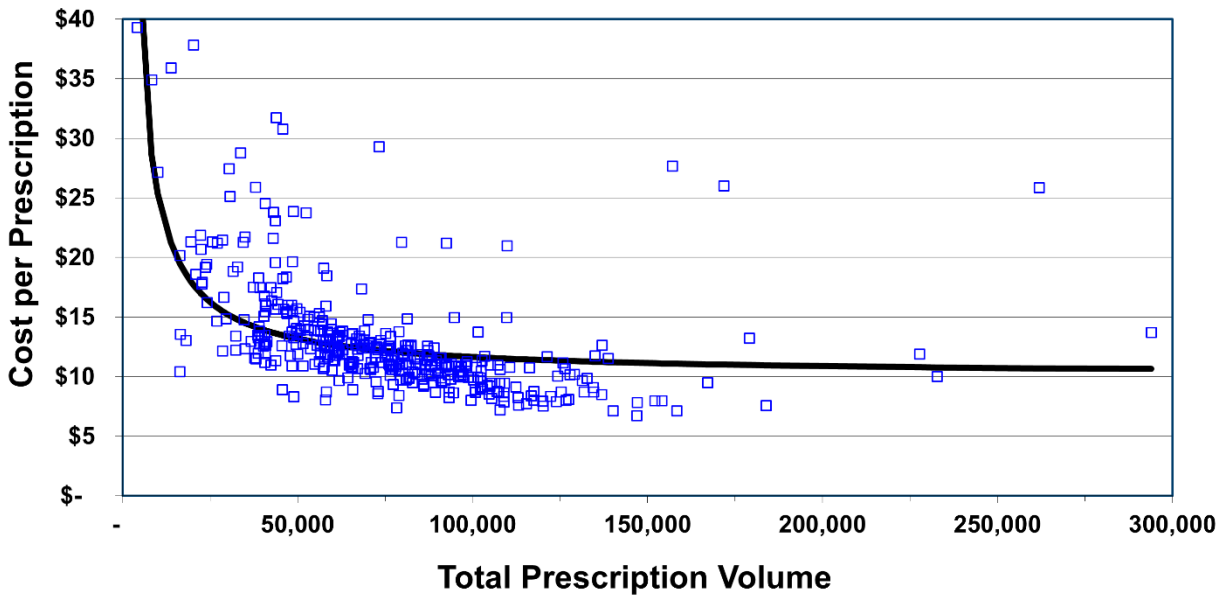


Exhibit 11

Chart of Components of Cost of Dispensing per Prescription

A pie chart of the components of prescription dispensing cost showing the per prescription breakdown of costs for the mean weighted by Medicaid volume: 71% of cost are related to employee professional labor, 2% of costs are related to owner professional labor, 8% of costs are related to building and equipment, 8% are related to prescription specific expenses including delivery, and 11% are related to other overhead.

Chart of Components of Dispensing Cost per Prescription

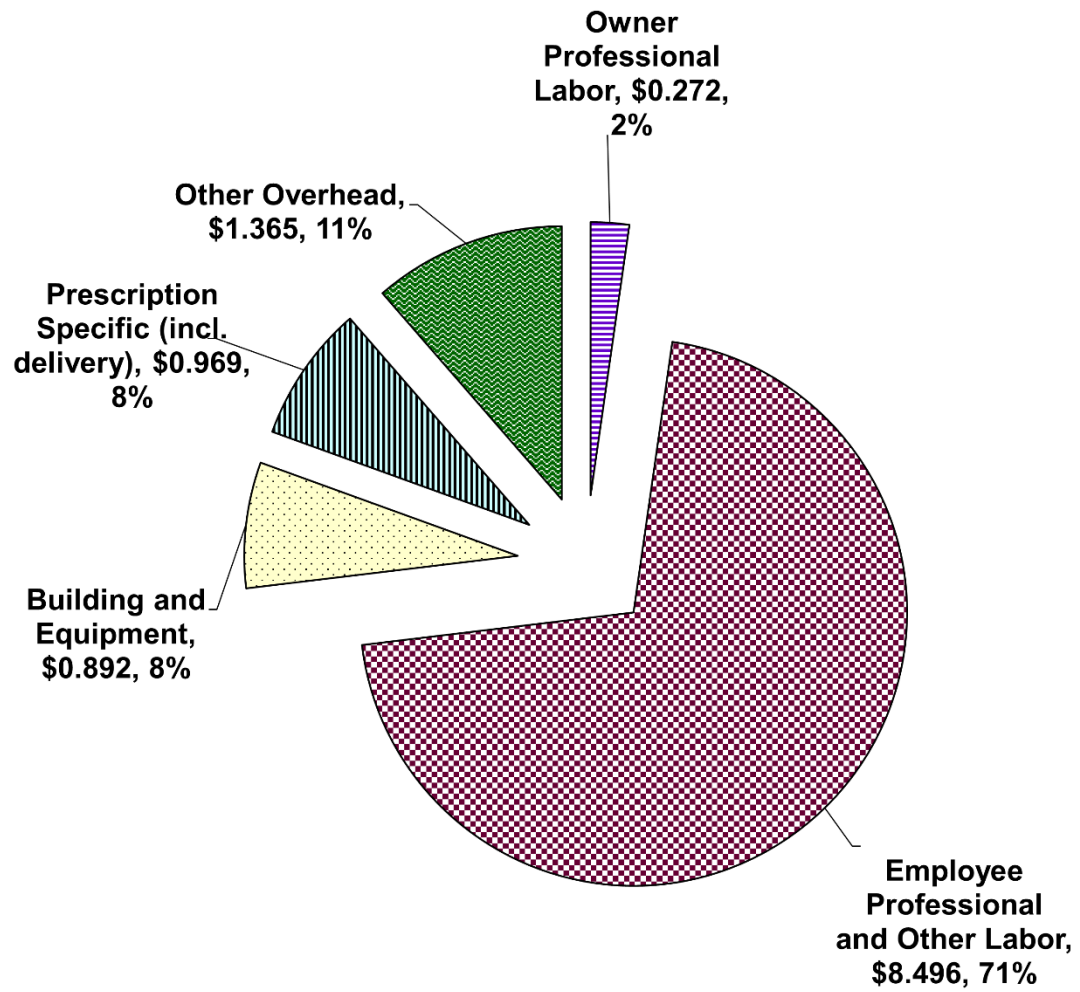


Exhibit 12

Summary of Pharmacy Attributes

Summary of Pharmacy Attributes
Colorado Department of Health Care Policy & Financing

Attribute	Number of Pharmacies Responding	Statistics for Responding Pharmacies Response	Statistics for Responding Pharmacies Count	Statistics for Responding Pharmacies Percent
Payer Type: percent of prescriptions (averages)	502	Medicaid fee for service	N/A	17.1%
Payer Type: percent of prescriptions (averages)	502	Medicaid managed care	N/A	7.6%
Payer Type: percent of prescriptions (averages)	502	Other third party	N/A	69.5%
Payer Type: percent of prescriptions (averages)	502	Cash	N/A	5.8%
Payer Type: percent of prescriptions (averages)	502	<i>Total</i>	N/A	100.0%
Payer Type: percent of payments (averages)	502	Medicaid fee for service	N/A	20.7%
Payer Type: percent of payments (averages)	502	Medicaid managed care	N/A	9.8%
Payer Type: percent of payments (averages)	502	Other third party	N/A	65.7%
Payer Type: percent of payments (averages)	502	Cash	N/A	3.8%
Payer Type: percent of payments (averages)	502	<i>Total</i>	N/A	100.0%
Type of ownership	502	Individual	6	1.2%
Type of ownership	502	Corporation	468	93.2%
Type of ownership	502	Partnership	7	1.4%
Type of ownership	502	Other	21	4.2%
Type of ownership	502	<i>Total</i>	502	100.0%
Location	502	Medical office building	55	11.0%
Location	502	Shopping center	14	2.8%
Location	502	Stand alone building	222	44.2%
Location	502	Grocery store / mass merchant	157	31.3%
Location	502	Outpatient Hospital	7	1.4%
Location	502	Other	47	9.4%
Location	502	<i>Total</i>	502	100.0%
Participate in 340B program	502	Covered Entity	34	6.8%
Participate in 340B program	502	Contract Pharmacy	216	43.0%
Participate in 340B program	502	Do not participate	252	50.2%
Participate in 340B program	502	<i>Total</i>	502	100.0%
Building ownership (or rented from related party)	502	Yes, (own building or rent from related party)	141	28.1%
Building ownership (or rented from related party)	502	No	361	71.9%
Building ownership (or rented from related party)	502	<i>Total</i>	502	100.0%
Hours open per week	502	64.0 hours	N/A	N/A
Years pharmacy has operated at current location	498	21.5 years	N/A	N/A
Provision of 24 hour emergency services	502	Yes	96	19.1%
Provision of 24 hour emergency services	502	No	406	80.9%
Provision of 24 hour emergency services	502	<i>Total</i>	502	100.0%
Percent of prescriptions to generic products	492	Percent of prescriptions dispensed that were generic products	492	80.1%
Percent of prescriptions to long-term care facilities	502	4.6% for all pharmacies; (36.8% for 63 pharmacies reporting > 0%)	N/A	N/A
Provision of unit dose services	502	Yes (average of 44.9% of prescriptions for pharmacies indicating provision of unit dose prescriptions. Approximately 93.5% of unit dose prescriptions were reported as prepared in the pharmacy with 6.5% reported as purchased already prepared from a manufacturer)	66	13.1%
Provision of unit dose services	502	No	436	86.9%
Provision of unit dose services	502	<i>Total</i>	502	100.0%
Percent of total prescriptions delivered	502	16.7% for all pharmacies; (29.0% for 289 pharmacies reporting > 0%)	N/A	N/A
Percent of Medicaid prescriptions delivered	502	15.7% for all pharmacies; (41.8% for 189 pharmacies reporting > 0%)	N/A	N/A
Percent of prescriptions dispensed by mail	502	11.1% for all pharmacies; (33.0% for 169 pharmacies reporting >0% percent of prescriptions dispensed by mail)	N/A	N/A
Percent of prescriptions compounded	502	1.6% for all pharmacies; (4.3% for 186 pharmacies reporting >0 compounded Rx's)	N/A	N/A