



October 7, 2022

Re: Modification of cost growth benchmarks

Dear PPC Commissioners:

The Patient Protection Commission (PPC) must utilize reasonable growth benchmarks as it moves forward with Governor Sisolak's Executive Order 2021-29. The Governor's benchmarks, while well intentioned at the time, do not reflect the high inflation environment in which we now live.

Inflation is at record levels in the country. From May 2021 to May 2022, the Consumer Price Index for All Urban Consumers increased 8.6 percent, the largest 12-month increase since the period ending December 1981.

Governor Sisolak's order establishes a health care cost growth target of 3.19% for 2022. That's less than half the current inflation rate! A benchmark rate that does not account for inflation and other factors outside the control of healthcare providers will not be helpful in identifying systemwide cost drivers.

Hospitals are facing unprecedented challenges and mounting inflationary pressures. Costs are rising dramatically in workforce, drugs, and medical supplies.

Workforce

Labor costs account for more than 50% of a hospital's total expenses. Any increase in labor costs significantly impacts a hospital's finances.

- Nurse wages have increased substantially for the past two years.
- Nevada hospitals hired contract (travel) nurses in 2021 and 2022 because of the severe nursing shortage in the state.
- The hours worked by contract (travel) nurses as a percentage of total hours worked by nurses in U.S. hospitals grew from 3.9% in January 2019 to 23.4% in January 2022.
- The hourly rates charged to hospitals by staffing companies for travel nurses increased 213% from January 2019 to January 2022.
- By the end of 2021, hospital labor expenses per patient were 19.1% higher than pre-pandemic levels and increased to 57% at the height of the omicron surge in January 2022.
- Some contract nursing companies charged \$250 an hour for specialized nurses and \$65 an hour for Certified Nursing Assistants (CNAs)



These exorbitant workforce costs are unsustainable for hospitals and all health care providers. A Nevada solution must be developed. We reiterate our request for the PPC to address the nursing shortage in Nevada. If it's not addressed, consumers will pay more for health care and will experience decreased access to services. Our experience through the pandemic teaches us that benchmarks for spending that don't adjust for such expenses will not support thoughtful reaction.

Patient access is currently impaired by the nursing shortage. In July, more than 500 hospital patients who are medically cleared for discharge by their physicians could not be discharged. One of the primary reasons involved post-acute providers such as nursing homes. The post-acute providers had available beds, but no nurses to staff them. The primary concern derived from this shortage is that diminished access is a detriment to patients.

Drugs

The cost of drugs has grown significantly since the pandemic began.

- By the end of 2021, total drug expenses for hospitals were 28.2% higher than pre-pandemic levels.
- Hospital drug expenses per patient increased 36.9% from pre-pandemic levels in 2019 through 2021.
- Drug companies increased the price of about 810 brand and generic drugs reviewed in a GoodRx study by an average of 5.1%. These price increases followed massive price hikes for certain drugs often used in the hospital such as Hydromorphone (107%), Mitomycin (99%), and Vasopressin (97%).
- Remdesivir, one of the primary drugs used to treat COVID-19 patients in the hospital, is priced at an average of \$3,120. Remdesivir was initially covered by the federal government. Now hospitals must purchase the drug directly.

Healthcare providers have no control over the cost of drugs.

Medical supplies

Global supply chain interruptions are causing havoc for healthcare providers. The cost of medical supplies increased greatly. Medical supplies account for approximately 20% of hospital expenses, on average.

- Between the fall of 2020 and early 2022 the cost for energy, resins, cotton and most metals surged in excess of 30%. These all are critical elements in the manufacturing of medical supplies and devices used every day in hospitals.
- Compared to the 2019 levels, supply expenses for hospitals were up 15.9% through the end of 2021.
- Medical supply expenses in ICUs and respiratory care departments were 31.5% and 22.3% higher, respectively in 2021 compared to 2019.
- China's Zero-COVID policy lockdowns continue to wreak havoc on supply chains.



As shown above, Governor Sisolak's Executive Order establishing a health care cost growth target of 3.19% for 2022 is simply unrealistic but could be easily modified. Inflation alone is significantly higher than the growth target.

The Governor recognized that his benchmarks may need to be adjusted from time to time. In his Executive Order he stated:

Section 5:

Should the PPC find that there have been significant changes to the economy after the effective date of this Order, it may recommend to the Governor changes to the cost growth benchmarks set forth in Section 1 or recommend changes to the manner in which benchmark performance is assessed.

The PPC should recommend changes to the Governor's growth target for 2022 and subsequent years to reflect the inflationary environment in which we live. Additionally, the PPC should address this issue in any legislation it develops.

Thank you in advance for acting on this important matter.

Very truly yours,

A handwritten signature in blue ink, appearing to read "Patrick D. Kelly".

Patrick D. Kelly
President and CEO