



# COMMONWEALTH of VIRGINIA

DEPARTMENT OF  
MENTAL HEALTH, MENTAL RETARDATION AND SUBSTANCE ABUSE SERVICES

Post Office Box 1797

Richmond, Virginia 23218-1797

JAMES S. REINHARD, M.D.  
COMMISSIONER

Telephone (804) 786-3921  
VOICE/TDD (804) 371-8977  
[www.dmhmrzas.virginia.gov](http://www.dmhmrzas.virginia.gov)

January 15, 2008

The Honorable Lacey E. Putney, Chairman  
House Appropriations Committee  
General Assembly Building, Room 947  
P.O. Box 406  
Richmond, Virginia 23218

Dear Delegate Putney:

I am pleased to forward to you the Department's Annual Report on Community Services Board Contracts for Private Inpatient Psychiatric Treatment Services. Item 315.K of the 2008 *Appropriation Act* directs me to submit a report annually to you regarding community services board (CSB) contracts with private service providers, to include contract amounts paid to each provider, number of patients served, term of inpatient treatment, any savings realized by community-based treatment, and any fiscal impact on state hospitals.

The Department developed a survey in collaboration with the Virginia Association of Community Services Boards, and CSBs submitted the information needed to produce this report with their FY 2008 end of the fiscal year reports in early October. As this report notes, local inpatient psychiatric treatment services delivered by private providers through contracts with CSBs have had a substantial impact on reducing the potential demand for state hospital services. I hope that you and your staff find the information in this report helpful. My staff and I are available at your convenience to answer any questions you may have about this report.

Sincerely,

A handwritten signature in cursive script that reads "James Reinhard".

James S. Reinhard, M.D., D.F.A.P.A.

JSR/prg

pc: The Honorable Phillip A. Hamilton  
The Honorable Marilyn Tavenner  
Robert P. Vaughn  
Susan E. Massart

Heidi Dix  
Frank L. Tetrack, III  
Ruth Anne Walker  
Paul R. Gilding



# COMMONWEALTH of VIRGINIA

DEPARTMENT OF  
MENTAL HEALTH, MENTAL RETARDATION AND SUBSTANCE ABUSE SERVICES

Post Office Box 1797  
Richmond, Virginia 23218-1797

JAMES S. REINHARD, M.D.  
COMMISSIONER

Telephone (804) 786-3921  
VOICE/TDD (804) 371-8977  
[www.dmhmrzas.virginia.gov](http://www.dmhmrzas.virginia.gov)

January 15, 2008

The Honorable Charles J. Colgan, Chairman  
Senate Finance Committee  
General Assembly Building, Room 626  
P.O. Box 396  
Richmond, Virginia 23218

Dear Senator Colgan:

I am pleased to forward to you the Department's Annual Report on Community Services Board Contracts for Private Inpatient Psychiatric Treatment Services. Item 315.K of the 2008 *Appropriation Act* directs me to submit a report annually to you regarding community services board (CSB) contracts with private service providers, to include contract amounts paid to each provider, number of patients served, term of inpatient treatment, any savings realized by community-based treatment, and any fiscal impact on state hospitals.

The Department developed a survey in collaboration with the Virginia Association of Community Services Boards, and CSBs submitted the information needed to produce this report with their FY 2008 end of the fiscal year reports in early October. As this report notes, local inpatient psychiatric treatment services delivered by private providers through contracts with CSBs have had a substantial impact on reducing the potential demand for state hospital services. I hope that you and your staff find the information in this report helpful. My staff and I are available at your convenience to answer any questions you may have about this report.

Sincerely,

A handwritten signature in black ink that reads "James Reinhard".

James S. Reinhard, M.D., D.F.A.P.A.

JSR/prg

Pc: The Honorable William C. Wampler, Jr.  
The Honorable Marilyn Tavenner  
Betsey Daley  
Joe Flores

Heidi Dix  
Frank L. Tetrick, III  
Ruth Anne Walker  
Paul R. Gilding

**Annual Report on Community Services Board Contracts  
for Private Inpatient Psychiatric Treatment Services  
July 1, 2007 - June 30, 2008**

**To the Chairmen of the House Appropriations and  
Senate Finance Committees of the General Assembly**

**Presented By  
James S. Reinhard, M.D., D.F.A.P.A.  
Commissioner**

**Virginia Department of Mental Health, Mental  
Retardation and Substance Abuse Services**

**December 1, 2008**

**Annual Report on Community Services Board Contracts  
for Private Inpatient Psychiatric Treatment Services  
July 1, 2007 - June 30, 2008**

**Executive Summary**

Item 315.K of the 2008 Appropriation Act requires the Department to submit a report annually to the Chairmen of the House Appropriations and Senate Finance Committees regarding community services board (CSB) contracts with private providers for local inpatient psychiatric treatment services. CSBs contract with private providers of local inpatient psychiatric treatment services in two ways. Historically, a few CSBs have contracted individually with some private providers for local inpatient psychiatric services. Based on survey results, CSBs paid \$125,828 to eight private providers for 455 bed days of inpatient psychiatric treatment for 129 individuals in FY 2008. However, CSBs contract with private providers of local inpatient psychiatric services primarily on a regional basis through the Local Inpatient Purchase of Services (LIPOS) mechanism. In FY 2008, CSBs paid \$14,761,454 of LIPOS funds to 32 private providers for 22,731 bed days of inpatient psychiatric treatment for 4,241 individuals. Thus, in FY 2008, CSBs reported that they paid a total of \$14,887,282 to 32 private providers for 23,186 bed days of inpatient psychiatric treatment for 4,370 individuals.

The purchase of these services by CSBs and the diversion of individuals receiving those services from admission to state hospitals had a significant impact on potential state hospital expenditures, utilization, and operations. Any savings realized by community-based inpatient psychiatric treatment services would be reflected in avoidance of increased state hospital expenditures and in decreased demand for state hospital beds. Of the 4,370 individuals served in FY 2008 through these contracts, only 459 individuals, or 10.5 percent of the total number, were transferred to a state hospital upon their discharge from private providers. These individuals needed longer term extended rehabilitation services offered by state hospitals. As a result of these contracts, 3,911 individuals were diverted from possible admission to state hospitals. In FY 2008, 3,270 individuals were served in state hospital admission units. If all 3,911 diverted individuals had been admitted, this would have increased the number of individuals admitted to state hospital admission units by 119.6 percent in FY 2008.

In conclusion, CSB contracts for local private inpatient psychiatric treatment services served more individuals than state hospital admission units in FY 2008, 4,370 versus 3,270 individuals. Those contracts obtained services for these individuals at far less cost than they could have been served in state hospitals, \$14,887,282 in the community versus up to as much as \$107,705,029 in state hospitals, depending on assumptions made about average lengths of stay in state hospital admission units and the proportion of those individuals who might have been admitted to state hospitals. Therefore, it is vitally important that funding for the purchase of local inpatient psychiatric treatment services delivered through contracts with private providers be maintained and even increased as Virginia moves to transform its public mental health, mental retardation, and substance abuse services system to serve individuals with serious mental illnesses most appropriately and effectively, increasing the availability of services in the community.

**Annual Report on Community Services Board Contracts  
for Private Inpatient Psychiatric Treatment Services  
July 1, 2007 - June 30, 2008**

**Background**

Item 315.K of the 2008 Appropriation Act requires the Department to submit a report annually to the Chairmen of the House Appropriations and Senate Finance Committees regarding community services board contracts with private service providers. The Act requires the report to include contract amounts paid to each private psychiatric inpatient provider, the number of patients (individuals receiving services) served, the term of inpatient treatment, any savings realized by community-based treatment, and any fiscal impact on state hospitals.

The performance contracts through which the Department funds the 39 community services boards and one behavioral health authority (CSBs) require them to submit reports containing financial, service, and consumer information to the Department on October 1 for the previous fiscal year. However, those reports do not contain the information about individual private providers needed for this report. Therefore, the Department collected this information through an additional non-automated report from CSBs. Because it would be much less disruptive for CSBs to submit the additional report with their other Fiscal Year (FY) 2008 reports to the Department on October 1, the Department requested and received an extension of the due date for this report to December 1. This extension allowed Department staff to receive and analyze the information submitted by CSBs before completing this report.

**Methodology**

The Department developed a survey in collaboration with CSBs to gather the information needed to prepare this report. The survey instructed CSBs to include all funds paid during FY 2008, even if the payment was for services provided in FY 2007, since some bills for FY 2007 services would not be presented or paid until after the end of that fiscal year. The survey also instructed CSBs to include all individuals who received inpatient psychiatric treatment from these private providers, even individuals served in FY 2008 but not paid for in FY 2008 due to services being billed after the end of FY 2008. Finally, the survey instructed CSBs to include all bed days, even bed days provided in FY 2008 that were not paid for in FY 2008, due to services being billed or paid after the end of FY 2008. This tends to balance out FY 2008 payments for FY 2007 services with services but no payments in FY 2008. The survey also instructed CSBs to include payments to reserve beds, some of which might not be occupied always. Information about individuals who received services and bed days was used to address the term of inpatient treatment element in item 315.K for this report.

The Department distributed the survey on September 17, so that CSBs could submit it with their FY 2008 end of the fiscal year reports to the Department in early October. Department staff reviewed the surveys and contacted CSBs to resolve any concerns as surveys were received. The results of the survey are reflected in this report. Department data about state hospital utilization for FY 2008 also was reviewed to prepare this report.

## Contract Amounts Paid, Numbers of Individuals Served, and Bed Days Purchased

CSBs contract with private providers of local inpatient psychiatric treatment services in two ways. Historically, a few CSBs have contracted individually with some private providers for local inpatient psychiatric services. Based on survey results, CSBs paid \$125,828 to eight private providers for 455 bed days of inpatient psychiatric treatment for 129 individuals in FY 2008. The average cost per bed day, total funds paid divided by the bed days purchased, was \$597. Bed days and payments at Snowdon of Fredericksburg were excluded from this calculation because the average cost per bed was based on a very low negotiated contract rate of \$40 per day, and the three bed days and payment at Russell County Medical Center were excluded due to the artificially high per day cost, explained in the second footnote below. The average length of stay per individual, total bed days divided by total individuals served, was 3.53 days. Calculated average costs and lengths of stay per individual served vary among providers, depending on several factors. These factors include the particular service needs of individuals receiving services, how closely a CSB manages the use of contracted beds, whether private providers bill for services in a timely manner, the rates negotiated in contracts with private providers, and whether contracts include low or no cost bed days or beds. Calculated cost per bed day ranged from \$538 to \$787. Calculated average length of stay per individual varied from 2.73 to 16.00 days. Information about individual CSB payments is shown in Table 1.

<b>Table 1: FY 2008 Individual CSB Payments to Private Providers</b>			
<b>Name of Private Provider</b>	<b>Funds Paid</b>	<b>Individuals Served</b>	<b>Bed Days Purchased</b>
Danville Regional Medical Center	\$17,233	7	32
Dominion Hospital (Falls Church)	\$49,620	8	68
INOVA Mt. Vernon <sup>1</sup>	\$0	1	16
Prince William Hospital (Manassas)	\$8,657	2	11
Russell County Medical Center: Clearview <sup>2</sup>	\$10,800	1	3
Snowdon of Fredericksburg	\$11,120	102	278
VCU Medical College of Virginia	\$11,165	1	15
Winchester Medical Center	\$17,233	7	32
<b>Totals: Eight Private Providers</b>	<b>\$125,828</b>	<b>129</b>	<b>455</b>

<sup>1</sup> The CSB purchased 16 bed days, but at the time of this report, it had not been billed for them. The cost will appear in the FY 2009 report.

<sup>2</sup> The CSB contracted and pre-paid for 18 bed days for \$10,800, but used only three in FY 2008. The 15 unused pre-purchased bed days will appear in the FY 2009 report.

CSBs contract with private providers of local inpatient psychiatric services primarily on a regional basis through the Local Inpatient Purchases of Services (LIPOS) mechanism. The seven planning partnership regions, shown on the next page, each include the CSBs and the state hospital that serves them in a region. Acting collaboratively through these partnerships, CSBs negotiate contracts with private providers for local inpatient psychiatric treatment services and use regional utilization review and management mechanisms to ensure the most cost effective use of LIPOS funds and the appropriateness of purchased inpatient psychiatric treatment for individuals receiving these services.

<b>Planning Partnership Regions (PPRs): CSB and State Hospital Partnerships</b>		
<b>Region</b>	<b>CSBs</b>	<b>State Hospital</b>
PPR 1 Northwestern Virginia	Central Virginia Community Services, Harrisonburg-Rockingham CSB, Northwestern Community Services, Rappahannock Area CSB, Rappahannock-Rapidan CSB, Region Ten CSB, Rockbridge Area Community Services, Valley CSB	Western State Hospital
PPR 2 Northern VA	Alexandria CSB, Arlington CSB, Fairfax-Falls Church CSB, Loudoun County CSB, Prince William County CSB	Northern VA MH Institute
PPR 3 Southwestern Virginia	Cumberland Mountain CSB, Dickenson County Behavioral Health Services, Highlands Community Services, Mount Rogers Community Mental Health & Mental Retardation Services Board, New River Valley Community Services, Planning District One Mental Health and Mental Retardation Services Board	Southwestern Virginia MH Institute
PPR 4 Central Virginia	Chesterfield CSB, Crossroads CSB, District 19 CSB, Goochland-Powhatan Community Services, Hanover County CSB, Henrico Area Mental Health & Retardation Services Board, Richmond Behavioral Health Authority	Central State Hospital
PPR 5 Eastern Virginia	Chesapeake CSB, Colonial Services Board, Eastern Shore CSB, Hampton-Newport News CSB, Middle Peninsula-Northern Neck CSB, Norfolk CSB, Portsmouth Department of Behavioral Healthcare Services, Virginia Beach CSB, Western Tidewater CSB	Eastern State Hospital
PPR 6 Southern VA	Danville-Pittsylvania Community Services, Piedmont Community Services, Southside CSB	Southern VA MH Institute
PPR 7 Catawba	Alleghany Highlands CSB, Blue Ridge Behavioral Healthcare	Catawba Hospital

For FY 2008, the General Assembly appropriated \$5.4 million of state general funds specifically to support LIPOS. CSBs also used some state reinvestment or system transformation funds to augment the LIPOS appropriations. In FY 2008, CSBs paid \$14,761,454 to 32 providers for 22,731 bed days of inpatient psychiatric treatment for 4,241 individuals. CSBs spent 23.21 percent more on inpatient psychiatric treatment services, provided 11.95 percent more bed days, and served 32.82 percent more individuals in FY 2008 than in FY 2007. The average cost per bed day was \$649. Calculated costs per bed day ranged from \$517 to \$868. The calculated average length of stay per individual receiving services was 5.36 days, an 18.66 percent decrease from FY 2007, and the average length of stay varied from 2.88 to 10.00 days among the 32 providers. Calculated average costs and lengths of stay varied among providers, depending on the factors noted in the paragraph preceding Table 1 on the previous page. Information derived from the survey about amounts of funds paid to individual private providers and the numbers of individuals they served and bed days they provided is contained in Table 2 on the next page. The University of Virginia Hospital and VCU Medical College of Virginia Hospitals are included in the table, even though they are not private providers in the same sense as the other providers, because they are valuable resources for the CSBs that contract with them.

<b>Table 2: FY 2008 CSB LIPOS Payments to Private Providers</b>			
<b>Name of Private Provider</b>	<b>Funds Paid</b>	<b>Individuals Served</b>	<b>Bed Days Purchased</b>
Arlington Virginia Hospital Center	\$332,320	64	490
Augusta Medical Center (Augusta County)	\$93,350	27	122
Carilion New River Valley Medical Center (Radford)	\$257,633	92	409
Carilion Roanoke Memorial Hospital	\$367,667	92	447
Centra Health/Virginia Baptist Hospital (Lynchburg)	\$6,000	1	10
Chippenham Hospital (Tuckers Pavilion - Richmond)	\$427,600	118	655
Community Memorial Hospital Pavilion (South Hill)	\$193,375	88	323
Danville Regional Medical Center	\$182,900	71	331
Dominion Hospital (Falls Church)	\$561,583	112	805
INOVA - Fairfax <sup>1</sup>	\$357,576	133	691
INOVA - Mt. Vernon	\$794,631	233	1,272
John Randolph Hospital (Hopewell)	\$367,257	58	606
Lewis-Gale Hospital (Roanoke)	\$40,257	11	48
Maryview Behavioral Healthcare Center (Portsmouth)	\$2,022,118	629	3,095
Memorial Hospital of Martinsville	\$187,194	107	308
Poplar Springs Hospital (Petersburg)	\$1,241,098	276	1,868
Prince William Hospital (Manassas)	\$803,243	208	1,274
Rappahannock General Hospital	\$21,930	3	35
Richmond Community Hospital	\$655,729	193	1,121
Riverside Behavioral Health Care Center (Newport News)	\$3,437,214	1,063	5,254
Rockingham Memorial Hospital (Harrisonburg)	\$168,000	33	210
Russell County Medical Center: Clearview	\$94,000	34	153
Snowdon at Fredericksburg	\$418,335	74	556
Southern Virginia Regional Medical Center (Emporia)	\$48,459	12	75
Southside Regional Medical Center (Petersburg)	\$283,115	77	464
St. Mary's Hospital (Richmond)	\$316,121	86	483
Twin Counties Regional Hospital (Galax)	\$97,226	46	178
University of Virginia Hospital (Charlottesville)	\$203,090	39	234
VCU Medical College of Virginia Hospitals (Richmond)	\$138,865	29	236
Virginia Beach Psychiatric Center (Virginia Beach CSB)	\$248,444	86	398
Wellmont Bristol Regional Medical Center: Ridgeview	\$281,524	109	438
Winchester Medical Center	\$113,600	37	142
<b>Totals: 32 Private Providers</b>	<b>\$14,761,454</b>	<b>4,241</b>	<b>22,731</b>

Combining the two ways CSBs contract for local inpatient psychiatric treatment services, individual CSB contracts and regional LIPOS contracts, CSBs paid \$14,887,282 in FY 2008 to 32 private providers for 23,186 bed days of inpatient psychiatric treatment for 4,370 individuals. The average length of stay per individual was 5.31 days, a 14.49 percent decrease from FY 2007. CSBs spent 23.12 percent more on local inpatient psychiatric treatment services, provided 10.45 percent more bed days, and served 29.83 percent more individuals in FY 2008 than in FY 2007. The purchase of these services and the diversion of individuals receiving these services from admission to state hospitals had a significant impact on potential state hospital expenditures, utilization, and operations, reducing the potential demand for state hospital services substantially.



## **Savings Realized By Community-Based Treatment and Fiscal Impact On State Hospitals**

Any savings realized by community-based inpatient psychiatric treatment would be reflected in state hospital expenditures and operations. However, identifying any specific savings realized by community-based inpatient psychiatric treatment or any immediate fiscal impact of these private provider contracts on state hospitals is difficult. The survey gathered information about the numbers of individuals who received local inpatient psychiatric treatment through individual CSB or LIPOS contracts who subsequently were admitted to a state hospital after their discharge from those private providers because they needed longer term extended rehabilitation services that are not offered in local inpatient psychiatric treatment services but are provided by state hospitals. Of the 4,370 individuals served in FY 2008 through these contracts, 459 individuals, or 10.5 percent of the total number, were admitted to a state hospital upon their discharge from private providers. However, 3,911 individuals were not admitted to a state hospital. This represents a considerable diversion of individuals from possible admission to state hospitals.

The two types of impact that could be analyzed are the decreased demand for state hospital admissions and associated bed days that occurred because of the delivery of these local inpatient psychiatric treatment services and the avoidance of projected increased costs. While state hospitals operate within relatively fixed budgets, various costs increase or decrease, depending on the demand for hospital services. For example, if admissions unexpectedly increase significantly, a state hospital may incur substantial unanticipated overtime staffing costs and experience unplanned increases in utilization, sometimes exceeding a utilization rate of 100 percent, which could jeopardize the quality of care in that state hospital.

While it would be logical to assume that all 4,370 individuals served by local private inpatient psychiatric treatment providers would have been admitted to a state hospital if services from these providers had not been available in FY 2008, only 459 individuals were admitted, and 3,911 individuals were not admitted. In FY 2008, 3,270 individuals were served in state hospital admissions units at Catawba Hospital, Eastern State Hospital, Northern Virginia Mental Health Institute, Southern Virginia Mental Health Institute, Southwestern Virginia Mental Health Institute, and Western State Hospital. If all 3,911 diverted individuals had been admitted, this would have increased the number of individuals admitted to state hospital admission units by 119.6 percent in FY 2008. An increase of this magnitude would have had profound adverse effects on the operations of state hospitals and the quality of services received by individuals in them. Overcrowding in hospital wards would have been widespread, creating extreme stresses on individuals receiving services and on direct care staff. Overtime costs for additional staff time needed to maintain reasonable and therapeutic ratios of staff to individuals receiving services would have increased significantly.

Local inpatient psychiatric treatment has several advantages over treatment in a state hospital for many individuals. Individuals served in local inpatient treatment services retain closer connections to their home communities and support networks. The involvement of the individual's family and significant others in treatment is much easier. One of the biggest advantages is that, in most cases, individuals are stabilized and returned to their home environments much more quickly than when they are admitted to state hospitals. In other words, although per day costs are often higher, individuals tend to have shorter lengths of stay in

community inpatient psychiatric treatment services than they do in state hospital acute inpatient admission units, so the overall cost of an episode of care is much smaller. In FY 2008, the average length of stay per individual for all community psychiatric inpatient beds (LIPOS and individual CSB contracts) was 5.31 days; the average cost per bed day for those beds was \$642; and the average cost per individual for local inpatient psychiatric treatment was \$3,407. In FY 2008, the average length of stay per individual receiving services for all state hospital acute inpatient admission beds was 43.78 days; the average cost per day for those beds was \$629; and the average cost per individual in state hospital acute admissions beds was \$27,539. The projected total cost if all 3,911 individuals who were diverted from state hospital admission had been admitted would have been an additional \$107,705,029. Yet, the total cost of all state hospital admission beds in FY 2008 was only \$90,053,152.

In FY 2008, two state hospital admission units had average lengths of stay (ALOS) per individual receiving services that were significantly longer, compared to the other state hospitals. However, even if those two admission units were excluded from calculations, the average ALOS in the remaining state hospital admission beds was 35.32 days per individual, still considerably greater than the ALOS of 5.31 days in community psychiatric inpatient beds. Excluding the costs of those two units would reduce the average cost per individual receiving services to \$22,263. This exclusion would decrease the overall total projected fiscal impact on state hospitals to \$87,070,593, if local inpatient psychiatric treatment services purchased from private providers were not available and all 3,911 individuals had been admitted to state hospital admissions units.

In conclusion, CSB contracts for local private inpatient psychiatric treatment services served more individuals than state hospital admission units in FY 2008, 4,370 versus 3,270 individuals. Those contracts obtained services for these individuals at far less cost than they could have been served in state hospitals, \$14,887,282 in the community versus up to as much as \$107,705,029 in state hospitals, depending on assumptions made about average lengths of stay in state hospital admission units and the proportion of those individuals who might have been admitted to state hospitals.

Therefore, it is vitally important that funding for the purchase of local inpatient psychiatric treatment services delivered through contracts with private providers be maintained and even increased as Virginia strives to transform its public mental health, mental retardation, and substance abuse services system. These funds, combined with additional resources for other innovative services such as Programs of Assertive Community Treatment, Discharge Assistance Projects, and Ambulatory and Residential Crisis Stabilization Services, offer the best chance for Virginia to continue decreasing the size of its state hospitals while building needed community capacity to serve individuals with serious mental illnesses most appropriately and effectively. This will help Virginia to move toward achieving the vision of a consumer-driven system of services and supports that promotes self-determination, empowerment, recovery, resilience, health, and the highest possible level of consumer participation in all aspects of community life, including work, school, family, and other meaningful relationships.