Special Report by the Public Policy Foundation of West Virginia

State Hospitals

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Reality Check

The influential novelist and philosopher, Ayn Rand, observed that: **"We can evade reality, but we cannot evade the consequences of evading reality."**

In the **Special Report Series**, the Public Policy Foundation of West Virginia analyzes critical issues facing state and local government in West Virginia through a series of white papers that identify the economic, fiscal and political realities that exist in the State; sets forth the consequences of the State evading these realities; and proposes solutions that are consistent with sound economic, fiscal and public policy principles. This paper addresses **STATE HOSPITALS.**

The Reality

West Virginia currently maintains and controls seven state hospitals:

- Hopemont Hospital, a long-term care facility
- Jackie Withrow Hospital, a nursing home
- John Manchin, Sr. Health Care Center, a long-term care facility
- Lakin Hospital, a long-term care facility
- Mildred Mitchell-Bateman Hospital, a psychiatric hospital
- Welch Community Hospital, an acute care hospital
- William R. Sharpe, Jr. Hospital, an acute care psychiatric facility

The Department of Health and Human Resources, through its Office of Health Facilities, provides direction, support, and oversight to all state-owned facilities for the care of individuals in the State of West Virginia with behavioral health and medical needs. The Department of Administration, however, dictates personnel and purchasing policies.

As a state agency, each of these hospitals are subject to an extensive number of rules and regulations. While other agencies of state government may operate efficiently and effectively under such a bureaucratic model, the rule-driven, top-down control, compliance-based model that governs our state hospitals has proven to not only be ineffective and inefficient in a highly-competitive health care market, but has created a situation in which state hospitals are underutilized.

It is important to note that the staff at each hospital provides a high quality of health care to their respective client base. Nevertheless, the bureaucratic model that governs these hospitals have produced three realities:

1. Each hospital is chronically underfunded;

2. Each hospital suffers from critical shortages and wasteful turnover in health care providers;
3. Each hospital is underutilized due to their inability to attract and maintain staff.

The Public Policy Foundation of West Virginia has conducted an examination of each these facilities that included site visits, interviews with key leadership and a review of available other information.

The purpose of this paper is to report the results of the examination as it applies to the impact of operating the state's hospitals under this bureaucratic model and propose a process by which the Legislature can review other options for operating such facilities in a manner that will provide greater service to the people of West Virginia.

The Hospitals

Hopemont Hospital

Hopemont Hospital, is a 98-bed licensed, Medicaid certified, long-term care facility located in Terra Alta, West Virginia. Hopemont provides services to geriatric residents of West Virginia and other nearby areas who require long-term care and behavioral interventions to maximize their functioning ability and independence with the goal of enabling them to become successful and satisfied in their environment. The hospital also serves as a facility of last resort for patients with Traumatic Brain Injury (TBI), the only facility of its type in West Virginia.

Findings

- Hopemont Hospital is currently utilizing only 48 of its 98 beds, yet maintains a waiting list of 50 people.

- The facility is capable of operating at a greater capacity, but is restricted by a shortage of essential personnel, with only 107 of the authorized level of 178 currently employed.
- Staff has been denied relief from the state's rigid salary structure by the Division of Personnel who responded that "if Hopemont was allowed to increase nursing salaries, we would have to raise salaries for everyone."
- Utilization of contract staff is necessary to maintain the current level of service, as the salary schedule is non-competitive with the private sector and short-term contract staff are used to maintain services, driving up personnel costs and leading to significant and ongoing staff turnover and challenges of service continuity.
- State personnel practices regarding salary levels and flexibility, as well as the difficulty that exists in navigating state purchasing practices contribute to the personnel shortages and less than 50% utilization of patient service capacity.

Jackie Withrow Hospital

Jackie Withrow Hospital is a 199-bed licensed nursing home located in Beckley, West Virginia. The facility was founded in 1927 and previously operated as Pinecrest Hospital.

Findings

- Jackie Withrow Hospital suffers from a chronic shortage of critical staff that causes less than full capacity operation.
- The staff shortage is a product of inadequate salary levels and flexibility, along with extended processing times from recruitment to hiring.
- The facility utilizes contract agency nurses at a cost premium and with frequent turnover. Purchasing has been a problem, historically, though, recently, there have been slight improvements.
- The facility has significant and ongoing maintenance challenges related to the age and construction of the physical plant though these problems are far outweighed by personnel shortages and availability and add to the time that West Virginia seniors and their families must wait for a nursing home bed.

John Manchin, Sr. Health Care Center

The John Manchin, Sr. Health Care Center is a 41-bed licensed long-term care facility located in Fairmont, West Virginia that also offers inpatient and outpatient clinical services. The facility was founded and operated as Miners Hospital Number 3 in 1899. In 1980, the original building was replaced with the current facility and renamed the Marion Health Care Hospital in 1983. In 2003, the hospital was changed again to John Manchin, Sr. Health Care Center.

Findings

- The facility uses 33 of its 41 licensed beds.
- The facility is operating below capacity due to a severe shortage of nurses.
- The nursing shortage is directly attributable to a highly competitive employment environment and a less-than-competitive salary structure.
- Current shortfalls are being made up with short-term contract nurses at an approximate 40% cost premium and with high turnover rates.
- The shortfall and turnover problem is exacerbated by a lack of flexibility and program configuration and utilization.
- There is also an admissions waiting list created by structural and procedural problems in state government while West Virginia seniors and their families wait for long-term care beds.
- The facility also prepares approximately 200 meals daily for community distribution.
- The facility also operates a part-time indigent care clinic that sees approximately 14-20 patients per week; a service that is duplicated elsewhere in the community and which generates virtually no revenue to offset its significant operating cost, both in staff salaries and consumption of physical facility space that could be used for the Center's primary mission.

Lakin Hospital

Lakin Hospital is a 114-bed licensed long-term care facility located north of Pt. Pleasant, West Virginia. Since 1979, the facility has provided 24/7 non-skilled nursing care.

Findings

- Currently, the hospital utilizes 72 of its 114 licensed beds.
- The less-than-full utilization is attributed the difficulty of recruiting and retaining nursing staff due to the competitive employment environment coupled with non-competitive conditions imposed by the state personnel system, both in salary levels and long delays in the hiring process.
- There are currently 28 private agency nurses employed at approximately double the salary rate offered through the state system.
- Truncated and delayed processing through the state purchasing system has also been a significant impediment to efficient operation.
- The facility could be operating at full capacity if the personnel problems through the state system could be solved.

Mildred Mitchell-Bateman Hospital

Mildred Mitchell-Bateman Hospital is a psychiatric hospital located in Huntington, West Virginia. The facility also serves a training site for 20 colleges across several related professions, in several states. The hospital offers on-site learning experiences that educate physicians, nurses, practical nurses, psychologists, health care administrators, technicians and supportive services personnel. In 1988, the Joint Commission on Accreditation of Healthcare Organizations accredited the facility. In December 1990, the Center for Medicaid and Medicare Services certified the facility.

Findings

- Due to personnel shortages, only 98 of 110 available beds are in use.
- A severe shortage in critical nursing personnel is the most critical, with hiring times extending to 24 months.
- There are currently 15 vacancies while 50 contract nurses are employed with an approximate 40% cost premium compared to those employed through the regular system.

- The state purchasing system has been a major problem for staff to navigate and an impediment to upgrading the antiquated telephone and computer systems.
- All of these problems contribute to the underutilization of the state's only psychiatric treatment facility while a growing number of West Virginians languish on a waiting list.

William R. Sharpe, Jr. Hospital

The William R. Sharpe, Jr. Hospital is a 150-bed acute care psychiatric facility located in Weston, West Virginia. The hospital is closely affiliated with the West Virginia University Department of Behavioral Medicine & Psychiatry. In addition to direct care, the hospital provides a number of essential mental health services including mental health education and training.

The facility opened in 1994 replacing Weston State Hospital, the former state facility for psychiatric care. Currently, it is the sole facility of its type in the state. The Joint Commission on Accreditation of Healthcare Organizations has fully accredited the hospital.

Findings

- This acute care psychiatric facility currently serves 110 forensic patients with a capacity of 200, pending recertification and sufficient staffing.
- The hospital is operating with chronic shortages of essential staff due to competition from the private sector, a non-competitive salary structure and the inflexibility of state personnel practices and procedures.
- Even when applicants are available, state hiring practices often result in waiting periods measured in months.
- In order to provide for patient service and safety, resultant staff vacancies must be filled by outside contract staff at a 40% premium, which amounts to hundreds of thousands of dollars annually.
- In addition to the inflated cost, contract staff must also undergo orientations and transitions, both while entering service and again when leaving service.
- The staff shortage adds to the challenge of maintaining program certification and quality standards.

- The hospital also faces other challenges such as slow purchasing processes, staff turnover, and absenteeism.
- The greatest staff needs are in nursing and social work.
- The hospital's communications system and other technologies are extremely outmoded.
- Leadership staff are well aware of the challenges and necessary solutions, but are stymied by the slow movement of personnel and purchasing at the state level.
- Nearly 100 people are awaiting essential forensic service.

Welch Community Hospital

Welch Community Hospital is a 65-bed acute care hospital offering a 24/7, 365 days per year, physician-staffed emergency room; a seven-bed intensive care unit; full service respiratory therapy cardiopulmonary service; laboratory; radiology (with a spiral CT scanner with a bone density scanning unit and digital mammography services); and clinical inpatient pharmacy. The hospital also operates an outpatient rural health clinic and a surgery clinic and serves as a cardiopulmonary resuscitation life support training center. The hospital also operates a 59-bed long term care facility.

Findings

- The hospital is a crucial health care provider for the citizens of McDowell County and many surrounding rural counties.
- The hospital also serves as a medical safe haven for the poor and working poor of the area, is the second largest employer in the county and the only hospital in the two-county area.
- The hospital has critical shortages of lab technicians and nurses which are exacerbated by salary levels and slow responses within the state personnel system.
- Greater levels of flexible service provision and internal configuration would allow a better match between hospital provided services and the evolving need of patients in one of the nation's most medically needy communities.

2012 Facilities Review

In 2011/2012, the Department of Health and Human Resources authorized professional engineer Ted A. Zachwieja of St. Albans, WV to conduct a study of the condition of the mechanical, electrical and plumbing facilities at each of the state hospitals.

The study determined that the chronic underfunding of physical facilities prevents full utilization of the existing physical plants for current and/or additional related program use and development to meet evolving needs in the changing healthcare and demographic environment in the state.

The study highlighted an estimated need of approximately $70 million in upgrades just to meet then-current safety codes, notwithstanding the additional needs that have developed since then, and not including replacement of outmoded or nonfunctional communication systems and equipment, nor the cost of and impact of deferred maintenance. Today, the Department of Health and Human Resources estimates that this need has increased to $100 million.

Summary

Based upon our review of all seven facilities and interviews with the leadership staff at each facility, we would offer the following summary of our findings.

- Clearly, each facility has an important mission to serve specific groups of West Virginians with one or more essential services.
- Many of these facilities are the sole providers for residents of the state and some provide necessary services to other components of government operations.
- Each facility is operating under extreme duress, often bordering on emergency and crisis, and that service provision is operating below system capacity.

- The critical service shortfall is attributable to chronic underfunding (including infrastructural,) which creates an ongoing crisis in essential personnel availability.
- In addition, procurement and purchasing processes are turgid and necessary facility upgrades are a continuing need.
- Although these critical problems are clear, present and evident, they are primarily procedural and organizational in nature and endemic to the bureaucratic structure that governs the operation of the facilities as a whole.
- The procedural and organizational problems also represent significant additional cost drivers, particularly in excess staffing costs.
- It is significant that staff at each facility identified, almost by acclaim, the same impediments to full and quality service provision represented in the state personnel and purchasing practices.

Privatization

The Current Problem

The problems that exist with West Virginia's state-run hospitals are primarily structural and financial. The top-down, bureaucratic model imposed on these facilities has produced a set of common problems that has a critical impact on the availability of health care to West Virginia's most vulnerable population.

It's important to note that most of these structural problems created by the bureaucratic model are derived from personnel and procurement policies emanating from the Department of Administration, not the Department of Health and Human Resources. The state's adherence to a "one-size-fits-all" approach may satisfy the issue of consistency across state government, but at the cost of denying mostly low income and indigent people access to health care that they need so desperately.

It appears that a simple solution may be to modify or exempt the hospitals from certain personnel and purchasing requirements. The problem with this approach is two-fold:

1. Maintaining any measure of government control inhibits the ability of a hospital to act quickly and responsibly to rapid changes in market conditions especially in terms of acquiring and retaining high-quality health care professionals.
2. Such an approach does not address the chronic underfunding of the hospitals that is currently estimated at nearly $100 million.

A proven method of addressing both of these problems in an effective and efficient manner is through some form of privatization.

American Medical Association Study

In the 1990s, small-to-medium size hospitals across the country were suffering, similarly, from increasingly insufficient resources and vigorous competition especially in terms of health care professionals. In response, most of these hospitals began to privatize in one form or another.

The conversations surrounding privatization was controversial. Supporters argued that for-profit organizations brought needed resources and experienced management to struggling institutions that improved the quality and efficiency of the care.

Critics, on the other hand, expressed their concern that once institutions became “for-profit,” that their focus would turn to financial metrics such as improving payer mix and

increasing volume, shunning disadvantaged patients and paying less attention to the provisions of high-quality care.[1]

In 2014, researchers for the American Medical Association conducted an investigation that included these questions:

1. What is the relationship between hospital conversion and changes in both financial health and clinical care?
2. What is the relationship between hospital conversions to for-profit status and changes in hospitals' patient population, in terms of annual case volume as well as provision of care to low-income racial and ethnic minority populations?[2]

The study concluded that hospital conversion to for-profit status:

- Improved the financial health of the institutions;
- Did not impact the level of quality care provided by the institutions; and
- Did not impact the proportion of low income or minority patients receiving care.[3]

Options

While the AMA study focused on a complete conversion from a state-run to a for-profit facility, governments have explored a number of options depending on the current system in operation and the external market:

[1] Sloan, F.A., Trogdon, J.G., Curtis, L.H., Schulman, K.A., "Does the ownership of the admitting hospital make a difference? Outcomes and process of care of Medicare beneficiaries admitted with acute myocardial infarction." *Med Care. 2003, 41(10): 1193:1205.*
[2] Joynt, K.E., Orav, E.J., Jha, A.K., "Association Between Hospital Conversions to For-Profit Status and Clinical and Economic Outcomes," *JAMA*, 2014; 312(16); 1644-1652.
[3] *Op cit*, p. 1644.

Sale of Entity

The state authorizes the sale of state hospitals to a for-profit or nonprofit organization. Such a sale would produce a large cash payment up that could be used to retire debt or establish a trust fund for community health care.

Public Corporation

The state transfers hospital's assets to a public corporation established for the sole purpose of owning and operating the hospital.

Lease

As an alternative to an outright sale, the state leases the hospital, clinic or equipment to a management firm.

Joint Operating Agreement

The state transfers the operation of the hospitals over to the private sector, but retains a measure of influence by appointing a portion of the board members to the new joint-venture entity.

Joint Venture

The state sells a portion of the public hospital assets for cash, retaining the power to appoint a portion of the board members.

Service Shedding

Depending upon the local market conditions, the condition of the physical plant, the image of the hospital, the availability of sufficient care elsewhere and other factors, a facility may not be needed at all. As such, the state gets out of the hospital business and sells the hospital for the value of the buildings and the underlying land.

Community-wide Public-Private Partnership

Should it decide to shed its public hospital(s), the state purchases from local hospitals and clinics the bed days it needs for indigent care.

Comprehensive Outsourcing

The state outsources all of their operations from information technology systems to business offices to clinical services. In essence, the responsibility of the hospital administration is to manage third-party contracts to insure quality and efficiency.[4]

The Hospital Facilities Authority – A Proposal

Privatization can increase cash flow, reduce debt and create a better system for serving indigent patients. Moving away from a top-down, bureaucratic model also increases flexibility, substantially, allowing hospital administrators - who are more keenly aware of the problems that need to be addressed - to make more informed decisions.

While echoing common themes regarding personnel, purchasing and facility improvement, each hospital is unique in terms of their mission and the degree of each problem they face. Therefore, proposing a specific solution for each hospital is beyond the scope of this report.

Instead, we would offer a process that would promote a detailed examination and evaluation of each hospital and a recommendation tailored to insure financial stability, high

[4] Tradewell, Richard, *Privatizing Public Hospitals*, Reason Foundation, (1998), https://reason.org/policy-study/privatizing-public-hospitals/.

quality care and, in general, continuing to meet the health care needs of West Virginia's most vulnerable residents.

The proposal draws upon the highly successful model of migration used to privatize and improve the workers' compensation system in the early 2000's. Like this model, the following steps would take place:

1. The Legislature would create the Hospital Facilities Authority (HFA) and transfer all facilities, operations and budgetary support to the new entity.
2. The HFA would remain subject to any current rules and regulations governing the hospitals, provided that the HFA would be authorized to make any changes necessary to promote the more efficient and effective operation of the hospitals.
3. The HFA would be governed by a nine-member Board of Managers appointed by the Governor for three-year staggered terms. The Board would include the Secretary of Health and Human Resources as ex-officio, non-voting member.
4. The Board of Managers would be charged with studying the feasibility, proposing and approving a plan for the privatization of each hospital to the degree necessary to meet and maintain the critical health care needs of the people in their respective service areas. In conducting their study, the Board of Managers would solicit proposals from the private and nonprofit health care sectors.
5. The Board of Managers would be authorized to undertake any sale, lease, contractual relationship or restructuring necessary to effectuate the approved plan.
6. The HFA would retain the authority to sell, lease, contract or restructure for a period of 30 months (assuming a July 1 effective date). If a plan has not been approved and the

process commenced prior to the December 31st sunset date of the HFA's authority, then the hospital will remain a state facility under the continuing governance of the Board of Managers.

7. In restructuring each institution, the HFA will consider avoiding any disruption in current staffing and compensation levels in order to provide, at least, the current level of care to patients.

Obviously, this proposal is an outline of a process that would require a wider review of the Code in order to identify and accommodate the shift from a state-run, bureaucratic model to a more entrepreneurial model. However, this proposal responds to the structural and financial crisis that currently exists and is instructive in setting a road towards a better system of service delivery for the people of West Virginia.