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Impact of Proposed Budget Cuts to State Hospitals

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Executive Summary

The legislature is currently debating budget reductions to many services, include State Hospitals. This paper was prepared for the Texas Conference of Urban Counties to provide an analysis of the impact that reductions to the State Hospital system budget would have on local governments.

When State Hospital beds are not available, the individuals needing those beds do not go away. Instead, these individuals overflow to hospital emergency rooms, county jails and social service programs or remain on the streets at risk to themselves and occasionally others. Since local governments have little choice but to absorb much of these costs, budget reductions to State Hospitals represent an unfunded mandate to local governments, who in many cases will be forced to pass on this cost to local taxpayers.

The proposed budget cuts to State Hospitals will impact an already over burdened system. On any given day, almost every bed in the State Hospital system is full. During State Fiscal Year (SFY) 2010, the system was on diversion (meaning at least one of the State Hospitals was unable to accept admissions) 40 percent of the time.

Although struggling to meet growing demand, the State Hospital system is a good value for Texas taxpayers. The system has improved efficiency through shared administrative and purchasing functions, lower staff costs, and use of electronic medical records, enabling it to operate at an average per bed day cost of approximately $401 per day,[1] about 60 percent of what private hospital beds charge.

The proposed budget cuts to State Hospitals would lead to immediate cost shifts to local governments. County jails, local hospital emergency rooms, and local law enforcement agencies will be forced to absorb the responsibility and cost for serving the patients that would otherwise be served in a State Hospital.

Costs that will likely shift to local entities include:

- **Increased jail costs**: Jailing an individual with a serious mental illness can cost taxpayers almost three times as much as jailing other inmates ($45 vs. $137 per day). In addition to costing more, inmates with mental illness also tend stay in jail longer than the general inmate population. Much of this longer length of jail stay is driven by those inmates who have been determined incompetent to stand trail and wait in jail until a State Hospital bed becomes available to restore competency. Reductions in State Hospital capacity will further increase the length of time individuals determined incompetent to stand trial wait in jail. Using national statistics for the average length of jail stay for an

individual with mental illness, the average cost of a jail stay for a person with mental illness is:

Jail Costs to Serve Inmates with Mental Illness	Average Daily Cost	Average Length of Stay (LOS) in Days	Total Cost Per Admission
Jail - inmate with mental illness	$137[2]	80[3]	**$10,960**

- **Increased hospital emergency room costs**: When patients needing inpatient psychiatric care enter the emergency room, they remain there until a psychiatric inpatient bed can be located for them. When fewer psychiatric hospital beds are available, individuals with mental illness remain in the emergency room longer, decreasing access for others with medical emergencies. The cost of treating patients with mental illnesses who are uninsured in an emergency room is not trivial. Expenses for nonelderly uninsured individuals (regardless of mental health status) served in emergency rooms averages **$986 per visit**.[4] However, because mental health patients typically require more emergency room staff attention and frequently have multiple physical health problems, the cost of serving them is likely higher. For public hospitals, increases in their uncompensated care can lead to reductions in other services or the need to raise local taxes. Private hospitals pass the cost of uncompensated care onto other payers in the form of higher charges.

- **Increased costs to law enforcement for transportation to an available State Hospital bed**: When a State Hospital is full (e.g. on diversion), law enforcement officers usually transport the patient to the closest available State Hospital bed. Providing this transportation is costly to local law enforcement agencies and poses a threat to public safety since these officers are unavailable for their regular duties. Given that the distance from one State Hospital to another is generally measured in hundreds of miles, the loss of officer time and related transportation costs are considerable. If budget cuts reduce State Hospital capacity, the frequency of providing this transport will increase, along with the associated costs. An example of transportation costs in mileage and officer time is provided below, based on travel from San Antonio State Hospital to Big Spring State Hospital, a 620 mile round trip.

Number of Officers Required	Hourly Rate	Total Travel Time	Total Staff Cost	Total Mileage Cost	Total Cost for Round Trip Transport
2	$52	10.5 Hours	$1,092	$316 (620 miles x $.51)	**$1,408**[5]

Mental health treatment works, but only if it is available at the right place and time. Jails and emergency rooms and law enforcement are not designed or intended to assume this state responsibility.

Introduction

Texas is entering the 82st legislative session with a budget deficit of approximately $27 billion. State leaders will be forced to make many hard decisions. While few spending cuts are devoid of consequences, not all cuts are created equally. Some proposed budget cuts entail more serious and problematic outcomes for our citizens in the form of increased local taxes, inability to access critical care, and risks to public safety. The proposed budget reductions to State Hospital services transfer a state responsibility to local governments, and set the stage for potentially tragic outcomes. This paper was prepared for the Texas Conference of Urban Counties to describe and quantify the impact of proposed cuts to local governments and taxpayers.

The budget proposed in H.B. 1 contains the following reductions to public mental health services:

- 20 percent reduction to adult's community mental health services
- 19 percent reduction to children's community mental health services
- 4 percent reduction ($32 million over the biennium) to State Mental Health Hospital services.

The proposed reductions to State Hospital services will affect a system already operating at overflow capacity. Texas ranks 50th in the nation in spending on mental health care.[6] In FY 2009, one or more State Hospitals were at or beyond full capacity each day. The consequences of the shortage of public psychiatric beds includes rising numbers of homeless, greater rates of people with mental illness entering county jails and state prisons, strains on hospital emergency rooms which hold individuals waiting for a psychiatric bed, and upticks in both nuisance and violent behavior of individuals that need more comprehensive forms of care.[7]

Local communities have already invested in community-based solutions to reduce the need for inpatient psychiatric beds. County officials, hospital districts, local mental health authorities, and law enforcement officials across the state have collaborated to maximize existing city, county, state and private resources to strengthen their mental health systems. As a result, local mental health systems are currently operating at a high level of efficiency with strong and unprecedented levels of coordination among providers. Reductions to the State Hospital

budget will threaten these gains. The resulting unmet need will spill over to jails, emergency rooms, county crisis and social service programs already straining to deliver critical services to their communities.

State Hospital Basics

Texas has nine psychiatric hospitals, operated by the Department of State Health Services with bed capacity of 2,484 and an average daily census of 2,339. The State Hospital system serves as the safety net for individuals with serious mental illnesses, preventing them from landing in the criminal justice system or the local hospital emergency room.

Most individuals enter the State Hospital involuntarily, through the court commitment process. Commitments to the State Hospital may be either civil commitments, which occur under the civil code, or forensic commitments, which occur under the criminal code. Only a small proportion of individuals enter the system voluntarily.

Texas State Psychiatric Hospital System at a Glance

Number of Hospitals: 9

Total bed capacity: 2,484

Average daily census: 2,339

Average cost per day: $401

Average Length of Stay: 29 days
Civil Commitments: 26 days
Forensic Commitments: 91 days

Source: DSHS Hospital Section Summary, FY 2010 data.

Note: Length of Stay refers to patients admitted and discharged within 12 months.

Access to the State Hospital system in Texas is carefully managed to conserve State Hospital beds for individuals who cannot be effectively or safely served in a community setting. A person may be admitted to a State Hospital only if he or she has a mental illness and, and as a result of the mental illness, presents a substantial risk of serious harm to self or others; or evidences a substantial risk of mental or physical deterioration.

The Local Mental Health Authorities (LMHAs), also referred to as community mental health centers, serve as the entry point to the State Hospital system. LMHAs manage state-funded mental health services for a defined area of the state and are responsible for managing and overseeing the use of State Hospital beds. LMHAs ensure that only those patients with the most severe needs and which cannot be met with community-based care enter the State Hospital system.

General revenue for State Hospital beds for the uninsured is allocated to the Local Mental Health Authorities (LMHAs) through the use of a prepaid account. This "account" can only be used in the State Hospital system and is not transferrable to purchase any other form of care. If the LMHA uses more State Hospital beds than can be supported by the amount in their prepaid account, they are at risk for paying the state the difference. As a result, the LMHAs have a strong incentive to use the State Hospital only for those patients for whom more restrictive care is appropriate.

State Hospital beds are paid for with a combination of state general revenue and payments from third party payers such as Medicaid, Medicare and private insurance. State general revenue covers the bulk of this responsibility (80%)[8], largely because of two factors: most of the patients using the State Hospital are uninsured, and the federal Medicaid program prohibits payments to State Hospitals and other institutions that primarily serve adults with mental illnesses under what is known as the Institution for Mental Diseases (IMD exclusion).[9]

The current state hospital system is a good value for taxpayers. The State Hospital system has streamlined almost all available administrative and support services over the past decade, sharing many functions and resources across the nine hospitals. Economy and efficiency within Texas' State Hospital system have been maximized through innovations such as electronic medical records (EMR) and shared purchasing arrangements. (Texas is one of only four states to fully use an EMR in its state hospital system.[10])

The overall efficiency of the State Hospital system is perhaps best illustrated in a comparison of public and private psychiatric inpatient costs. The average cost in the State Hospital is $401 per day, whereas costs in the private system range from $600-$700 per day,[11] with some private costs being considerably higher. Thus, the cost of a State Hospital bed is roughly 60 percent of a private hospital bed. Lower costs are due largely to lower pay of state workers and low overhead/administrative expenditures (which as noted above, are a result of shared purchasing and administrative functions).

State Hospital Capacity: An Already Over-burdened System

On any given day, almost every bed in the State Hospital system is full. During FFY 2010, the system was on diversion (meaning at least one of the Hospitals was too full to accept admissions) 40 percent of the time.[12]

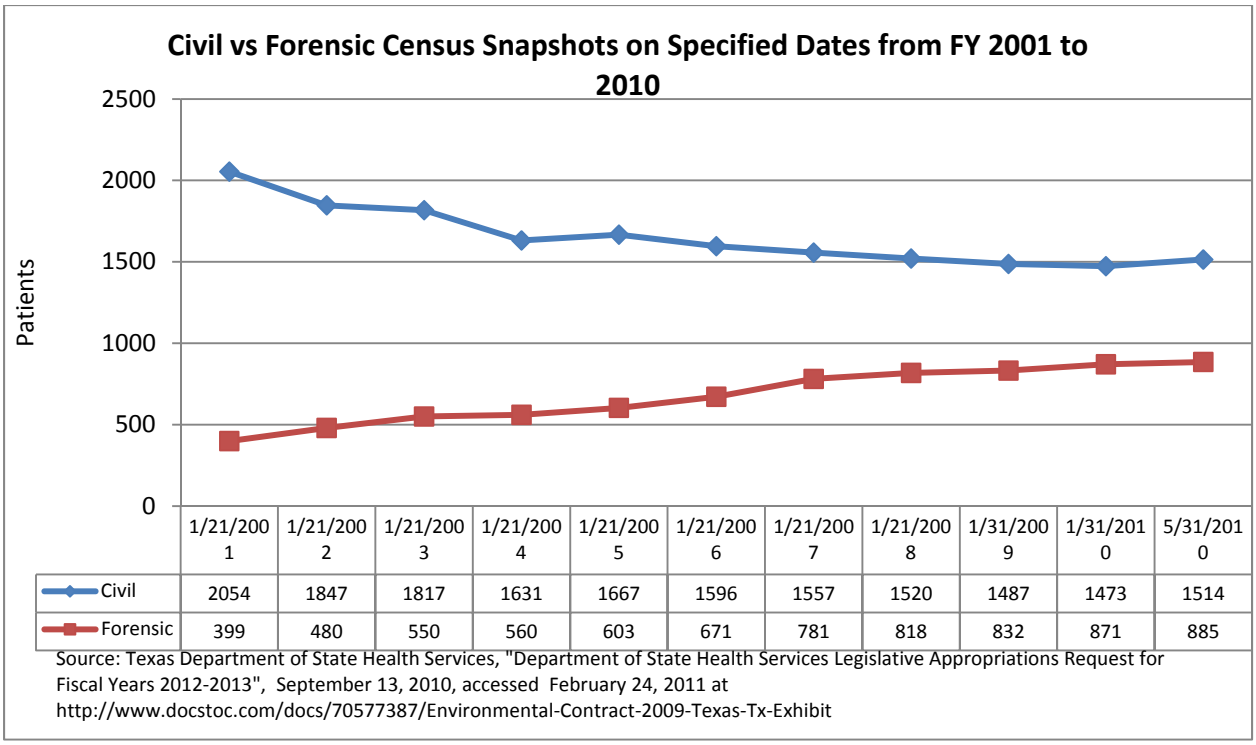
State Hospital capacity has been strained for a number of years. In Texas, the number of State Hospital beds has shrunk over 30 percent in the past 15 years, from 3,560 in 1993[13] to 2,484 by 2010.[14] Although this trend is nationwide, it is particularly acute in Texas.

Texas has approximately 10 public psychiatric beds per 100,000 residents, compared to a national average of 17 beds.[15] Experts estimate 50 public beds per 100,000 are necessary to adequately serve the needs of uninsured.[16] This estimate assumes the availability of sound outpatient programs. However, given that the wait in Texas for community based services is often very long (for example, the Houston Mental Health Authority has a waiting list of over 800 people[17]), even 50 beds per 100,000 would be insufficient to meet the level of need. Since the gap between existing State Hospital capacity and recommended levels is widened by lack of community-based services, Texas will face an even more pronounced challenge to meeting demand for State Hospital beds if funding for community-based mental health services is also reduced.

As bed capacity has diminished, the critical role of State Hospitals has become increasingly clear to local police departments, sheriffs and emergency room staff. Police officers are reporting longer times spent transporting patients to available State Hospital beds and longer waits in emergency rooms for a bed to be found for persons brought in under emergency detention, sheriffs and county officials are raising concerns about pressures on jail as they have to absorb more inmates with mental illnesses, and emergency room staff are warning of longer waits for all patients as individuals with mental illness consume more emergency room resources while waiting for an inpatient bed to become available.[18,19,20,21]

On any given day, almost every bed in the State Hospital system is full.

Texas' shortage of public inpatient psychiatric beds is even more pronounced when the increase in forensic commitments is considered. Forensic commitments refer to individuals committed to State Hospitals under the criminal code and occur either because an individual is incompetent to stand trial or because they are determined not guilty by reason of insanity. In FY 2010, 21 percent of patients in the State Hospital system were under a forensic commitment.[22] The chart below shows that the proportion of forensic commitments has increased steadily in recent years, eroding the capacity for civil commitments. If this trend continues, it will become increasing difficult for civilly committed patients to enter the State Hospital, forcing these patients into other forms of care, often provided at the local level.



	1/21/2001	1/21/2002	1/21/2003	1/21/2004	1/21/2005	1/21/2006	1/21/2007	1/21/2008	1/31/2009	1/31/2010	5/31/2010
Civil	2054	1847	1817	1631	1667	1596	1557	1520	1487	1473	1514
Forensic	399	480	550	560	603	671	781	818	832	871	885

Source: Texas Department of State Health Services, "Department of State Health Services Legislative Appropriations Request for Fiscal Years 2012-2013", September 13, 2010, accessed February 24, 2011 at http://www.docstoc.com/docs/70577387/Environmental-Contract-2009-Texas-Tx-Exhibit

The impact of forensic commitments on State Hospital bed capacity is profound for two reasons. One, as noted above, there has been consistent growth in the number of forensic commitments to the State Hospitals. Secondly, forensic commitments generally involve much longer lengths of stay than civil commitments. In FY 2010, the average length of stay for civil commitments was 26 days, compared to 91 days for a forensic commitment.[23] With the average forensic commitment lasting at least three times longer than the average civil commitment, forensic commitments are consuming large portions of available State Hospital bed capacity.

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Psychiatric beds within private or community hospitals have also declined significantly in recent years. Nationally, the number of beds per 100,000 civilian population has declined by 72 percent between 1970 and 2002, from 263 beds per 100,000 to 73 beds per 100,000.[24] As a result, even if local governmental entities such as counties or hospital districts had funds to purchase private psychiatric beds, there is little excess capacity in private psychiatric beds to absorb reductions in state hospital beds. Moreover, the cost of these beds is significantly higher than the cost of beds at the State Hospital; private bed costs average approximately $600-700 per day compared with an average cost of $401 per day at the State Hospital.

The Impact of Decreasing Funding for State Hospital Beds

Budget reductions to the State Hospital system will shift the cost of basic state government services to local taxpayers. As costs are pushed down to the local level, they are shifted to systems not equipped, designed or prepared to become the new state mental hospital.

Increased Jail Costs/Utilization

County budgets are already struggling to keep up with rising jail costs. In FY 2008, the ten counties with the largest jail capacities spent an average of almost 14 percent of their county budgets on jails.[25, 26] Jail overcrowding drives up local county budgets because counties must pay for the additional costs associated with more staff, medical care, food and overhead for inmates. Any closure or reduction in State Hospital beds will increase the burden on jails that must hold individuals who are awaiting placement in a State Hospital because they have been determined incompetent.

The cost of jailing an individual with a serious mental illness can cost taxpayers almost three times as much a jailing other inmates.

Jail is an expensive form of care for individuals with serious mental illness. The average daily cost of jail is $45[27], compared to $137[28] for inmates with serious mental illnesses. Thus, jailing an individual with a serious mental illness can cost taxpayers almost three times as much a jailing other inmates.

Inmates with serious mental illness not only costs jails more, but they also stay in jail longer than the general inmate population. When an individual is determined incompetent to stand trial, the jail must hold that individual until a State Hospital bed becomes available to provide competency restoration. In recent years, the number of individuals waiting in jail for a forensic commitment to a State Hospital bed has grown steadily, putting increased pressures on county jails to serve these very ill inmates. Although Texas has implemented strategies to address the demand for forensic commitments, there have been times when jails held pretrial defendants many months before a State Hospital bed became available. If jail overcrowding continues to increase, counties will have to decide whether to build more facilities or risk lawsuits over deteriorating conditions.

While the national average length of jail stay is 80 days for the mentally impaired offender compared with 20 days for the general jail inmate,[29] the length of jail stay in Texas for mentally ill offenders can be significantly longer than these national figures, likely due to the scarcity of State Hospital beds for those clients awaiting forensic commitments. For example, in Travis County, the average wait in jail during FY 2010 for a State Hospital bed for inmates determined incompetent to stand trail was 118 days from the time the inmate was determined

incompetent to the time he or she was transferred to a State Hospital for competency restoration.[30]

The existing shortage of State Hospital beds is already forcing many counties to absorb additional jail costs to hold inmates who are awaiting treatment and competency restoration at the State Hospital. As documented by the Texas Criminal Justice Coalition, this burden to counties is significant. At various points during 2010, approximately 80 inmates per day were waiting in Harris County's jail for a State Hospital bed; in Dallas County 90 people were on the waiting list; and in Bexar County, 100 individuals were waiting for a State Hospital bed.[31]

There are currently 321 persons in jail awaiting placement in a State Hospital. (At times this number has been over 400).[32] Should State Hospital capacity be reduced beyond the already low levels in place today, the wait in jail will only increase, with local governments forced to pick up the tab.

The financial consequence of shifting the burden of treating people with mental illness to jails and prisons is significant. In large counties (those with population of 1 million or more), average jail health care expenditures have tripled from about $5 million in 2005 to nearly $15 million in 2009, according to a survey by the Texas Association of Counties.[33] However, the impact is not limited to large counties. When small counties cannot manage an overcrowded jail properly, they can face multimillion-dollar lawsuits over poor conditions—lawsuits whose judgments create more fiscal obligations that the community must shoulder.[34]

The chart below illustrates the cost of jailing an individual with serious mental illness. Attempts to develop effective outpatient competency restoration programs would significantly reduce county jail costs. However, simply reducing State Hospital services will not create savings – it merely shifts costs to local taxpayers.

Jail Costs to Serve Inmates with Mental Illness	Average Daily Cost	Average Length of Stay (LOS) in Days	Total Cost Per Admission
Jail- inmate with serious mental illness	$137	80	$10,960

Note: Since some counties are experiencing much longer waits for forensic commitments to the State Hospital than 80 days, these jail costs are likely conservative.

Jails and prisons are not created to be de facto mental health hospitals. Staff are not trained to provide psychiatric care and the environment can pose risks for both inmates and jail staff. Despite efforts of county jails to respond to these demands, jail is not an appropriate place for clinical treatment.

Increased Use of Hospital Emergency Rooms

Already overcrowded emergency rooms are the place of last resort for psychiatric patients, where they become backlogged when psychiatric beds are not available. When patients needing inpatient psychiatric care enter the emergency room (ER), they wait until a psychiatric bed can be located for them. When fewer psychiatric beds hospital beds are available, the average wait in the ER increases.

Patients with mental disorders remain in the ER longer than non-mental health patients, consuming scarce emergency room resources and prolonging the amount of time that *all* patients must wait for services.[35] According to a 2004 review, psychiatric patients remained in the ER twice as long as other patients with 42 percent spending 9 or more hours in the ER.[36] Should fewer State Hospital beds be available, the wait time in the ER will increase, impacting access to care for the whole community. When a local ER becomes too full to accept new patients, new patients are diverted to other local hospitals, causing delays in care that can range from inconvenient to catastrophic.

During the last instance of severe budget cuts to mental health services in 2003, ERs absorbed much of the burden. From 2003 to 2004 mental health diagnoses in 20 Central Texas hospitals and health clinics jumped 79 percent.

During the last instance of severe budget cuts to mental health services in 2003, ERs absorbed much of the burden. From 2003 to 2004 mental health diagnoses in 20 Central Texas hospitals' ERs and health clinics jumped 79 percent.[37] The cost of treating those patients with mental illnesses who are uninsured is absorbed by the hospital and the cost of care in an emergency room is not cheap. Expenses for uninsured individuals under age 65 served in emergency rooms averages $986 per visit.[38] For public hospitals, increases in their uncompensated care can lead to reductions in other services or the need to raise local taxes. Private hospitals pass the cost of uncompensated care onto other payers in the form of higher charges.

Increased Transportation Costs to Law Enforcement

When a State Hospital is full, (e.g. on diversion), the usual practice is for law enforcement officers to transport the patient to the closest available State Hospital bed. The cost of law enforcement providing this transportation is funded by local taxpayers and poses a threat to public safety since these officers are pulled from their regular duties. Given that the distance from one State Hospital to another is generally measured in hundreds of miles, the loss of officer time and related transportation costs are considerable.

An example of transportation costs in mileage and office time is provided below, based on travel from San Antonio State Hospital to Big Spring State Hospital, a 620 mile round trip.

Number of Officers Required	Hourly Rate	Total Travel Time	Total Staff Cost	Total Mileage Cost	Total Cost for Round Trip Transport
2	$52	10.5 Hours	$1,092	$316 (620 miles *$.51)	**$1,408**

If budget cuts reduce State Hospital capacity, the frequency of having to transport patients to distant State Hospitals will increase, along with the associated costs. Additionally, for the patient being transported, who is often on a civil commitment and thus guilty of no crime, riding in the back of patrol car is not a humane nor effective way to enter a treatment program.

Decreased Quality of Care

The State Hospital system operates on significantly less revenue per day than its private counterparts. With efficiencies already maximized, the system will be severely challenged to withstand budget reductions without a direct impact on capacity and/or quality of care. Salaries have not kept pace with the private sector, making it difficult to recruit and retain professional staff. Currently, State Hospitals are struggling to fulfill staff vacancies, particularly for psychiatrists who can make significantly more in private practice. The percentage of vacancies in critical staff positions (e.g. psychiatrists, nurses, therapists) has grown from 4.8 percent in 2006 to 7.1 percent in 2010. Moreover, turnover in these critical staff positions is also increasing.[39] Budget reductions that reduce number or experience and competence of staff will impact quality of care provided at the State Hospitals. There are both costs and risks to any quality of care reductions.

Ensuring quality of care at the State Hospitals is critical to both patient well-being and the ability of the state to continue to collect revenue from third party reimbursements. All of the nine State Hospitals are Joint Commission accredited, meet Hospital Accreditation standards, and have CMS Medicare certified beds. Joint Commission accreditation is important both as an assurance of the quality of care provided at the hospitals and also for providing the hospitals deemed status for Medicare reimbursement. Without this deemed status, the Hospitals must meet additional requirements to participate in Medicare, and these additional requirements are not only administratively difficult but may not be possible given existing staffing levels. Thus, if the Hospitals lose Joint Commission accreditation, the state's ability to receive Medicare and other third party revenue would be at-risk and additional general revenue would be required to make up the difference.

Additionally, poor quality of inpatient care and inadequate community supports are the key determinants of preventable *readmissions.* Preventable readmissions are detrimental to patients' recovery and represent costs that the state must bear but which could have been

avoided with improved care at the outset. An analysis of Medicaid enrollees by the Texas Health and Human Services Commission found that individuals with admissions for mental health and substance abuse are one of the groups most likely to experience a readmission,[40] highlighting the need for high quality inpatient care and effective community-based follow up. Any readmission to the State Hospital involves costs both to the state for the inpatient state hospital costs, but also entails costs borne by local governments to cover court commitment costs and transportation by law enforcement.

Conclusion

In times of budget crisis, difficult public policy decisions must be made. However, it is important to understand the impact of significant funding cuts on the individuals and communities served. Schizophrenia does not go away during budget crisis. With or without State Hospital beds, individuals with serious mental illnesses need access to inpatient treatment. When State Hospital beds are not available, individuals with mental illness will be served by hospital emergency rooms, county jails and other local social service and crisis programs. Since local governments have little choice but to absorb these costs, budget reductions to State Hospitals are an unfunded mandate to local governments, who in many cases will be forced to pass this cost to local taxpayers.

The lack of State Hospital capacity is already causing patients to overflow to local jails and emergency rooms. The proposed cuts will weaken an already strained safety net, a net that protects local governments from absorbing additional costs and consumers from deteriorating to the point that their mental illness becomes life threatening to themselves or others.

The impact of cuts to State Hospitals and mental health services is often insufficiently described as a question *when* we pay: now or later. It is also, however, a question of *where* we pay: at the state level, where there is already an efficient, high quality system in place, or at the local level, where jails and emergency rooms are left with no choice but to fill the void. This is more than a cost shift from the state to the local level, it also forces systems not prepared or designed to act as the State Hospital to assume this role and creates an unstable system with the potential for tragic outcomes.

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[26] The debt service that counties pay related to jail construction is not included in this figure and is therefore an additional expense to counties.
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