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Pontiac General to triple size of profitable psychiatric unit amid inpatient bed shortage

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- Financially improving Pontiac General plans to add 76 psychiatric beds over next two years to address community need
- Psychiatry residency program expected to select four residents in spring
- Plans for hospital-based crisis center hit regulatory, funding snag



Crain's Detroit Business/Larry Peplin

Pontiac General Hospital



Sanyam Sharma

Pontiac General Hospital plans to nearly triple the size of its 44-bed adult psychiatric unit that will be complemented with a 16-resident psychiatry program to address shortages of psychiatrists and inpatient behavioral health beds, the hospital's CEO said.

Since emerging from bankruptcy protection in 2016 under new ownership, 115-year-old Pontiac General has generated more than \$9.3 million in profits that its owners say have been plowed back into upgrades and infrastructure improvements. It also has resolved more than a dozen quality and poor infrastructure citations from federal and state regulators, the last one issued in early 2018.

It also has modified donor and resident contracts in response to losing a breach of contract lawsuit that alleged a family had paid the hospital \$400,000 believing it would get their son a residency.

"It's not uncommon to see hospitals bankrupt or near bankrupt these days. It has made me think that what we are doing here is actually more unique (than turning around the hospital) from bankruptcy itself," said Sanyam Sharma, CEO and chairman of Pontiac General.

Regulatory challenges, rising expenses, slim reimbursement increases and the movement to outpatient care all contribute to challenges in keeping small community hospitals open, Sharma said.

"We don't want to keep people in hospitals. We want to fix them and get them out. And the more we can do that on an outpatient basis, the better we see our health care (costs)," he said. "When that's happening, along with tremendous consolidation, what do we do with all those beds? (300 licensed) ... My solution is to focus on community needs."

So Sharma and the board decided to expand on the hospital's financially successful adult psychiatric unit from 44 beds to 120 by 2022. He said the expansion would add

much-needed profitability to the hospital and allow it to build up some of its **other inpatient programs**, including its low-volume 15-bed staffed medical-surgical unit.

"We make money on our inpatient unit because we are efficient," Sharma said. "We could handle a lot more. We think we are underutilized, but growth for hospitals isn't (on the inpatient side). The beds allow us to provide a higher level of care to the community for other services such as surgeries and to support our urgent care (center)."

An expansion would also fill a major need for behavioral health services as mental health professionals daily in Southeast Michigan are constantly searching for inpatient beds for patients in crisis, experts said.

In Michigan, studies have shown a shortage of adult and adolescent inpatient psychiatric beds, including specialized beds for autistic and developmentally disabled patients. There also is an extreme shortage of psychiatrists nationally and especially in Michigan for outpatient care.

Behavioral health and substance-abuse problems have increased over the years in Michigan and nationally with the opioid crisis alone taking 130 lives daily, including five in Michigan. One in five Americans, or 43.8 million adults, has a diagnosable mental health condition. Between 1999 and 2016, suicide rates in Michigan increased 33 percent, according to the Centers for Disease Control and Prevention.

Based on the state Certificate-Of-Need Commission updating its rules that increased the number of allowed psychiatric beds in a market, Pontiac General, Beaumont Health and South Bend-based NeuroPsychiatric Hospitals have made plans to expand psychiatry services.

Beaumont plans to open in 2021 a 75-bed private psychiatric hospital in a joint venture with for-profit Universal Health Services, a King of Prussia, Pa.-based chain. The \$45 million, 100,000-square-foot psychiatric hospital and outpatient center in Dearborn will be located across from Beaumont Hospital Dearborn on Oakwood Boulevard.

NeuroPsychiatric Hospitals recently announced plans to build a 64-bed behavioral health hospital in Kalamazoo County. The company has applied for a certificate of need for the \$37.4 million facility that includes 31 adult psychiatric beds and 33 beds for people with developmental disabilities.

Emily Ehrlich, director of Ann Arbor-based Altarum's Center for Behavioral Health, said the need is great.

In a study released earlier this year, Altarum found a serious shortage of psychiatrists and other mental health care providers in the state. It also detailed how 650,000 people with a mental illness and more than 500,000 with a substance-use disorder receive no treatment.



Emily Ehrlich

Last year, Pontiac General received approval for a 16-member psychiatric residency program from the Accreditation Council for Graduate Medical Education, the Chicago-based organization that monitors the nation's 10,000-plus residency programs. There are currently 10 residency programs in Michigan where about 290 psychiatrists are trained, ACGME said.

Residents train for four years in mostly hospital-based psychiatry programs. Most of Pontiac General's residents, four of whom will be selected next spring, will train at the hospital's inpatient psychiatric unit, but residents will also rotate through nearby mental health clinics for such specialty services as child and adolescent psychiatry.

Last fall, Beaumont Health also announced it would also start a 16-doctor psychiatric residency program in 2020 to rotate through the new Dearborn hospital in 2021. However, \$3 million in state funding earmarked for the program was vetoed last month by Gov. Gretchen Whitmer.

Psychiatric expansion

Sharma said Pontiac General projects to spend about \$5 million to expand its fourth-floor adult psychiatric unit, which averages more than 90 percent occupancy. Initially, the hospital will add 15 beds for developmentally disabled people, 13 geriatric psychiatric beds and 25 medical psychiatric beds, later expanding to 120 beds by 2022.

Heather Rae, CEO of Common Ground in Bloomfield Hills, said she welcomes additional psychiatric capacity. She said the shortage of inpatient beds causes many problems.

"Getting psychiatric inpatient hospital units to accept people who are the sickest or have highly complex co-occurring conditions is a challenge," Rae said in an email to Crain's. "Pontiac General has been vocal about wanting to provide more inpatient beds to meet the needs of this population."

Sharma said he wants to open an inpatient unit for the developmentally disabled because of needs he has heard from other providers.

"People heard about it and before we even opened it, we started getting calls from the west side of the state asking to send us patients," Sharma said. "Now they are sending patients to Indiana and Illinois because they want to keep them safe."

Greg Moore, a health care lawyer who heads the behavioral health practice at Dickinson Wright in Troy, said hospitals that add psychiatric beds should have in place effective screening to ensure severely autistic patients aren't "warehoused" in hospitals for undue periods of time. He said he knows 20 families with autistic family members who are dealing with these issues.

"The state of Michigan's only answer for this crisis is to warehouse individuals in places like Hawthorn Center, Kalamazoo Psychiatric Hospital and Caro Center," said Moore, adding: "I worry the increased availability of inpatient psychiatric beds will lead to institutionalization of psychiatric patients, especially developmentally disabled patients, because they have nowhere else to go."

Ehrlich said while there may be certain situations where developmentally disabled people stay in inpatient settings too long, there is an overall shortage of specialized beds for seriously mentally ill patients.

Tom Watkins, a longtime mental health and education expert, said more psychiatric beds are needed in Michigan, but they have to be adequately staffed and patients screened properly to avoid mixing seriously ill with those just needing acute-care services.

"It (adding beds) will only help if they actually take the persons with serious mental illness and the state holds them accountable for doing so," Watkins said. "If they get a certificate of need for psych beds that are inadequately staffed, screen the difficult patients out and only do medication therapy, (that just) simply adds to the revolving door of inadequate service for some of our society's most vulnerable and underserved population."

Private psychiatric hospitals are often cited by regulators for poor quality and civil rights violations, but only after multiple complaints by families or workers, Watkins said. Problems include mental health facilities holding patients against their will, mixing young and old patients and moderately ill and severely ill patients, bad record-keeping and lack of trained staff.

Sharma said Pontiac General will recruit a number of new psychiatrists for its residency training program, and it also has nursing leadership and staff who specialize in behavioral health problems. It currently employs three psychiatrists, he said.

Ehrlich said Pontiac General's plan to increase psychiatric beds and create a residency program for psychiatrists will help expand access to care, "which is good to see."

"We also need to expand outpatient services to keep up with that demand," Ehrlich said.

Moore said there needs to be other solutions to address persistently mentally ill people than housing them in hospitals or jails or allowing them to wander the streets, fueling the ranks of the homeless.

Crisis center?

Southeast Michigan also has grappled with a lack of mental health crisis centers, an alternative to hospital emergency rooms where patients can be evaluated, stabilized and either sent home or directed to appropriate further care.

"We have the resources to do it that would be adjacent to our urgent care center and provide a good resource for the community," Sharma said. The crisis center could handle up to 25 patients for the 24-hour period allowed by law, he said.

"You hear about all these people going to ERs and sitting there for two days," Sharma said. "There are better places equipped to take care of psychiatric patients for a very short period of time before they're placed."

Rae said Common Ground and Oakland Community Health Network discussed partnering with Pontiac General to serve as a backup for crisis center overflow. OCHN contracts with Common Ground to operate a crisis and resource center in Pontiac.

Sharma said the hospital and Common Ground couldn't reach agreement because state funding is needed to support hospital-based crisis services.

"There is an obvious need. Because this is a totally new idea, there is no mechanism to pay for this," he said "Our pitch (for state support) is that this resolves a problem (at lower costs) as we are using existing space and existing resources at the hospital instead of having the state build this and staff it from scratch."

Sharma said Pontiac General would spend more than \$1 million on the project for 15 to 25 patients, but it would need a state program to reimburse the hospital.

Moore said hospitals can open crisis centers without obtaining a state license and operate them as mental health urgent care centers.

"You need to staff it appropriately because it requires extensive care when you keep people overnight," Moore said. "You look at successful programs around the country (where there are) lounge chairs in a large room where people can be monitored by trained professionals who try and de-escalate" mental health issues.

Kathleen Kovach, OCHN's deputy executive director and COO, said an increased number of psychiatric beds will help behavioral health providers find places for people in need. She said using Pontiac General as a crisis center to alleviate hospital ER "boarding" is a good idea but not allowed by the mental health code or Medicaid program.

"(Our) conversation focused on the possibility of utilizing service availability at Pontiac General for individuals in emergency departments who were awaiting admission into an inpatient facility," Kovach said. "While the idea has merit, the

proposed model is not a recognized service ... which is proving to be a challenge moving forward."



Kathleen Kovach

Current state law limits crisis centers to holding patients to 24 hours instead of the 72 hours other states such as Indiana allow, Moore said. Another impediment facing crisis centers is an aging state health code that prohibits ambulances from taking people with mental health conditions to facilities other than hospitals, he said.

State Rep. Mary Whiteford, R-Casco Township, introduced House Bill 4052 to address a reimbursement issue where commercial insurers don't pay for providers offering psychiatric residential services in an adult foster care program. The bill, which provides for licensing of residential treatment facilities that offers psychiatric care, could open the door for additional funding from payers that could incentivize providers to increase crisis centers.

Financial turnaround

From 2009 to 2015, Pontiac General lost more than \$90 million, according to Medicare cost reports. In 2016, the Sharma family acquired Pontiac General after the hospital emerged from bankruptcy proceedings. The Sharmas began hiring staff (increased to 274 from 214), reopening services, rebuilding aging infrastructure and slowly began showing a profit, a feat many didn't expect.

"We have taken all excess cash and borrowed some money to reinvest in the hospital," Sharma said. "That is for deferred maintenance. Obviously your HVAC system doesn't (fail) in one year. It was a 30-, 40-, 50-year-old HVAC unit that was not maintained properly. The roof wasn't in perfect shape when we came in, but we replaced all those things."

Pontiac General also made several changes in how it collects donations and signs contracts with incoming residents in its family medicine residency program. Donors must sign waivers indicating that the donation to the for-profit hospital does not guarantee any relative or person admission into residency or graduation from the program. The hospital also updated its residency contract with language that clearly

states entrance and continued participation in the program is based on personal merits.

"I don't think that we (have an) obligation to make sure that there's no relation between a donor in any sort of capacity and anybody who applies to the program," said Sharma. "But what we make sure and clear is for the donor that there is no quick pro quo (if giving a donation), that there is no guarantee of success. And at the end of the day, the program is, is isolated in that sense that if you're only getting in and graduating if you're qualified to do so."

Sharma said his family and the other two physician investors (20 percent ownership) have not taken any dividends from the hospital profits since taking over. "The only dividend we take is the tax dividend. You have to pay your taxes," he said.

In 2016, Sharma said Pontiac General broke even. But in 2017 and 2018, Pontiac General earned net income of \$9.3 million on operating revenue of \$66.5 million, a 13.9 profit margin, he said. Operating expenses declined 2.1 percent in 2018 to \$28.47 million from \$29.1 million.

"We had a large profit in 2017 (\$7.4 million) because we had a lot more surgeries and certain reimbursements were in our favor," Sharma said. "In 2018 we went down a bit (\$1.8 million) and we've leveled off around that number (projected for 2019)."

Sharma estimated the expanded psychiatric unit would eventually add about \$8 million to the hospital's bottom line in the form of earnings before interest, tax, depreciation and amortization, or EBITDA.

While, most psychiatric hospitals require a minimum of 80 patients with a higher commercial payer mix to break even, Sharma said "we make money with 30 patients." Pontiac General's psychiatric unit payer mix is 70 percent Medicaid, 17 percent commercial and 13 percent commercial, but Sharma projects Medicare volume will increase with the geriatric unit.

"We are more efficient because we have less waste. We found creative ways to deliver our service. Creative meaning we built our own electronic medical record" for

one-tenth of the cost of most commercial systems, he said, adding that overhead and staffing expenses are lower than most hospitals.

"I am fortunate enough to be in the health care business where if we're growing that means we're doing something good for somebody, and that's what we decided to do," he said.

Inline Play

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