



## Managing Construction Costs

RESEARCH BY LEE ANN JAROUSSE

**B**uild it and they will come. Or will they? The economic downturn, followed by the credit crisis and uncertainty over health care reform, put a halt to the hospital building boom a couple of years ago. Projects were put on hold or made smaller in scope in anticipation of changes in the health care delivery system.

"Organizations have been making the most of what they have," says Dale Woodin, executive director of the American Society for Healthcare Engineering. Over the past few years, the focus has been on maintenance and renovation. The tide may be turning. "Access to capital is starting to flow and construction projects are starting to come off the shelf," says Joe Sprague, principal and senior vice president at HKS Inc., a Dallas-based architecture

firm. But that doesn't mean that organizations have money to burn. To avoid unnecessary and out-of-control costs, Sprague advises that organizations start smart, design smart and build smart.

To begin, organizations should right-size projects and provide appropriate executive oversight to avoid project creep. On the design side, it's important that organizations design for workflow efficiency and safety, as well as maximize energy efficiency. These efforts can impact cost by minimizing the number of necessary full-time employees and shortening length of stay. Design also should be flexible to address future shifts in care delivery. On the build side, the use of modular, prefabricated rooms can reduce the cost and length of the construction project, among other things.

### FISCAL



### FITNESS

#### ABOUT THIS SERIES |

H&HN has created this exclusive yearlong series called Fiscal Fitness with the support of the VHA. Finding ways to rein in expenses without sacrificing quality and safety is imperative for hospitals as they struggle to maintain financial viability in a shifting payment system even as their operational costs continue to climb. Over the next several months, we'll look at everything from the supply chain to pharmacy, clinical efficiency, IT and more. Follow the Fiscal Fitness series in our magazine and in our e-newsletter *H&HN Daily*.



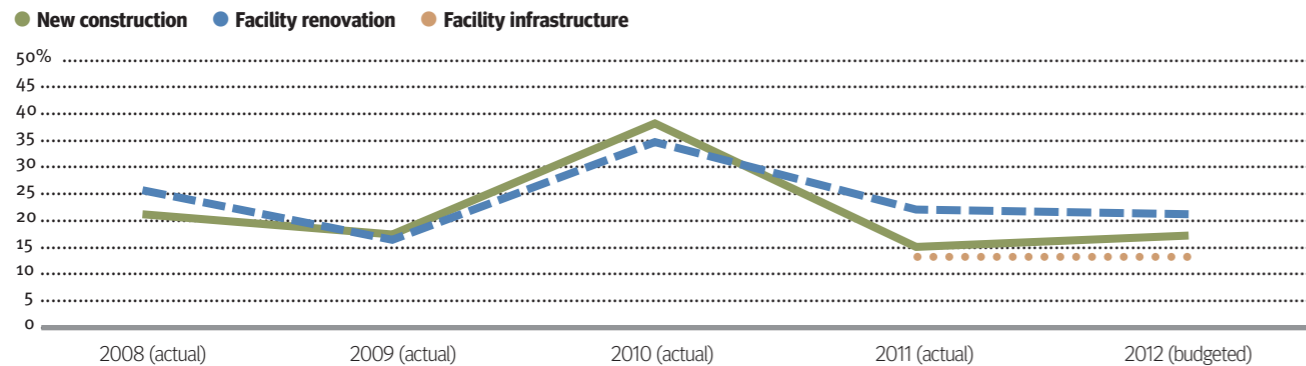
"Today, administrators want proven designs that produce results reliably and with value," says Stephen Dailey, vice president, Hospital Consulting Division, HBE Corp., a St. Louis-based design and construction firm. "In an era of dwindling capital resources and scarce reimbursement, hospital administrators are interested in pragmatic solutions." One way to do that is to seek a third-party review of design plans. "A hospital does not need to wait until it pays for construction drawings to request a challenge or comparative analysis," Dailey says. "Such a challenge to the original design effort invokes strong competitive forces in the design process."

It's important that facility plans align with the organization's

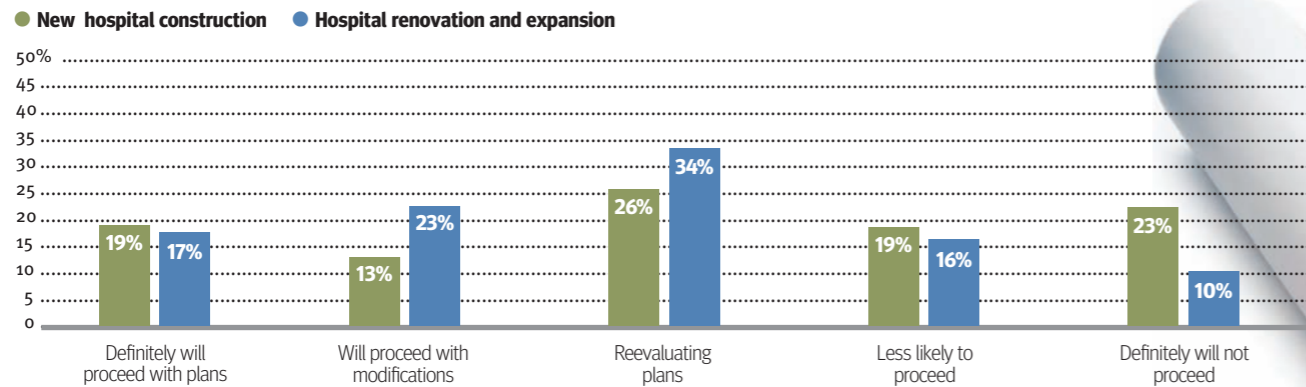
strategic plan. A good place to start is with the project team. "Select your team wisely," advises Richard Morris, executive vice president of Smith Seckman Reid, an engineering design and facility consulting firm. "The team should understand the hospital's mission and goals and collaborate to develop a shared vision."

Still, planning today is much more difficult than it was just a few years ago. "We don't want to add a lot of capacity that in five years will be obsolete," says Kip Edwards, vice president of development and construction for Banner Health, Phoenix. "We are directing a good deal of capital to outpatient, clinic-type facilities that are better positioned for the future," he says. "We try to build smart and with flexibility." ●

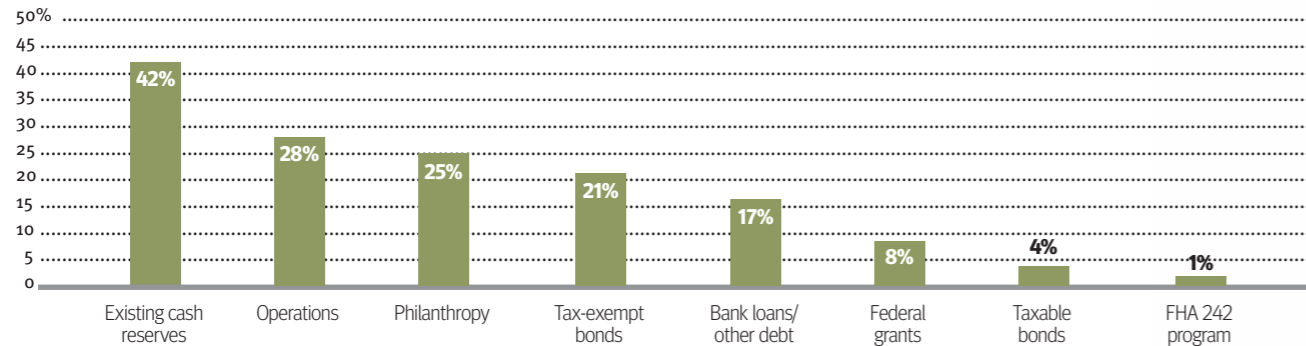
### Capital: PERCENTAGE OF HOSPITAL'S CAPITAL BUDGET ALLOCATED TO CONSTRUCTION PROJECTS (AVERAGE)



### Health reform: IMPACT OF REDUCED REIMBURSEMENT RATES UNDER THE AFFORDABLE CARE ACT ON HOSPITAL'S CONSTRUCTION PLANS



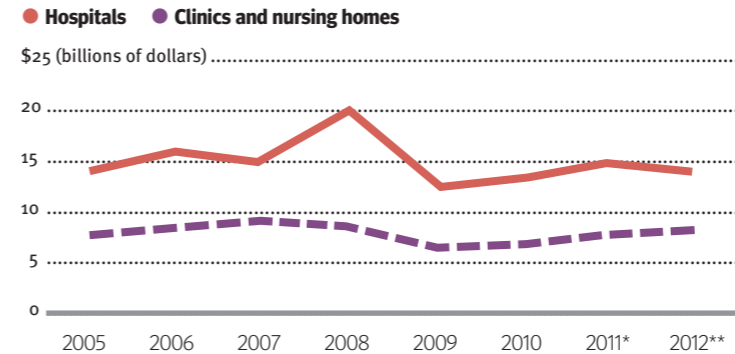
### Financing: HOW ORGANIZATIONS ARE FINANCING CONSTRUCTION PROJECTS



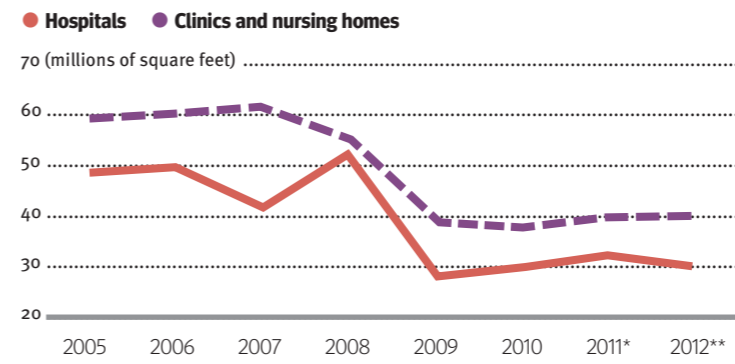
Source: Health Facilities Management/ASHE 2012 Construction Survey

### Healthcare construction start statistics

#### HOW MUCH IS BEING SPENT?



#### HOW MUCH SQUARE FOOTAGE?



\*Projection based on first nine months of the year \*\* Forecasted Source: McGraw-Hill construction

Organizations should right-size projects and provide appropriate executive oversight to avoid project creep.

### Seven keys to managing construction costs

Hospital construction and renovation projects are complex, costly undertakings. Here are key steps to containing costs and enhancing efficiency in renovation and design. Focusing on efficiency, flexibility and patient-centeredness in the design process will enhance patient and employee satisfaction, improve outcomes and maximize the useful life of the facility.

- 1. Link the facility plan with the strategic plan:** When planning a construction or renovation project, it's important to link the organization's strategic plan and facility plan to ensure the facility will meet the organization's long-term needs.
- 2. Build for quality and safety:** Evidence-based design can create environments that enhance patient safety and improve clinical outcomes. Keep in mind that some design features may cost more upfront, but likely will result in savings later on due to better patient safety and quality care.
- 3. Think Lean:** Design processes before designing space. Hospital design should promote efficient care delivery, providing minimal distance of travel for caregivers and patients and grouping functional areas with similar ancillary requirements.
- 4. Design for patient-centered care:** Design has a direct impact on the health of patients, their families, as well as employees. Design should promote healing and comfort and have limited impact on the environment.
- 5. Build for flexibility:** Advances in medicine and changes in the care delivery system require flexibility in building design and use.
- 6. Maximize energy efficiency.** New construction and renovation provide an opportunity to maximize energy efficiency. Building placement, among other things, can help reduce energy consumption through lower heating and cooling requirements. Renewable energy options also should be considered for incorporation in design plans.
- 7. Practice commissioning.** Commissioning is a critical component of all facility projects, ensuring that all mechanical, electrical and pumping are operating at expected levels.

Source: H&H research

# Taming hospital costs takes a strategic approach.



Slim margins are a fact of life for today's health care providers. Going forward, your hospital will need to serve more patients and achieve better outcomes, all at a much lower cost. Reducing the cost of supplies alone will not be enough – you'll need a more strategic approach. That's where VHA comes in. We can work with you to reduce variability across your hospital practices leading to tremendous cost savings without sacrificing quality of care. We've done it for others. We can do it for you.

800.842.5146 • [www.vha.com/costreduction](http://www.vha.com/costreduction)

**VHA**<sup>®</sup>  
Results are just the beginning