

Executive Summary

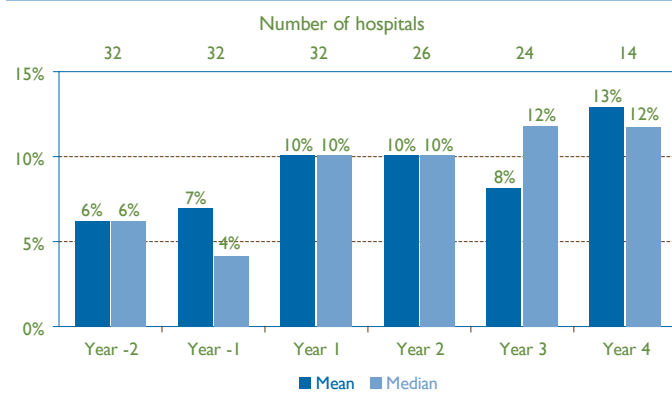
The third year of the Rural Hospital Replacement Facility Study, prepared by STROUDWATERASSOCIATES and RED CAPITAL GROUP, identified measurable changes in the experiences of Critical Access Hospitals (CAH) engaged in the process of facility replacements. Notably, respondents reported improvement in tangible measures of hospital performance, such as faster patient discharge growth and improved operational efficiency. Respondents also reported greater success in physician and staff recruitment and improved customer and employee satisfaction. Other intangible benefits enjoyed by participating hospitals included community economic development, improved work culture and better quality of care.

Survey respondents consisted of CAHs that recently completed facility replacements. As of the date of this report, 90 (7%) of the 1,283 CAHs were in the process of replacement, according to various state offices of rural health and state hospital associations. Of this group, 39 hospitals were eligible for this year's study of which 33 responded to the survey.

With respect to patient volumes, many hospital CEO's reported greater than expected growth following replacement. Eighteen of 30 responding hospital executives reported inpatient growth that exceeded expectations, while 21 of 30 CEOs reported greater than forecasted outpatient growth.

In some cases, unexpected discharge growth strained the capacity of replacement hospitals, giving rise to new capital projects to address these needs. Follow-on projects reported by respondents included clinic and ancillary area expansion and construction of new facilities to house specialty practices. Survey evidence suggests that hospitals will do well to plan for capital projects post-replacement in preparation for subsequent growth in demand for standard and specialty care.

Fig. 1 - Percent Change in Adjusted Discharges by Year



Survey respondents reported an average 10% increase in overall volumes in the first year following replacement and an 11% annualized rate of growth over all years. Moreover, responding

hospitals reported an increase in staffing levels after replacement. The median increase of full-time equivalent staff among respondents was 4% in the first year and 4% annualized for all years following replacement.

While staff levels increased when new facilities were completed, higher staff productivity helped to hold down unit operating costs. During the first year after replacement, the ratio of total expenses per adjusted discharge increased 10%; but the ratio declined in each year thereafter. Indeed, even after considering increased capital costs, 52% of responding hospitals reported lower per unit costs than their pre-replacement experience.

Interviews with hospital CEOs found that facilities replacement helped rural hospitals overcome obstacles that hampered staff and physician recruiting. Each of the 30 administrators interviewed felt that hospital replacement had a positive effect on staff recruitment. Fourteen indicated that their facilities were fully-staffed with nursing and technical personnel at the time of the interview, while 29 agreed that replacement had a positive impact on physician recruitment and retention.

In addition to recruiting benefits, facilities replacement produced meaningful quality of care improvements, according to statements from hospital executives. A number of respondents indicated that replacement opened new opportunities to improve clinical processes. The operating room frequently was cited as an area that generated measurable outcome improvements, particularly in reduced incidence of infection. Some indicated that building designs that incorporated patient safety features, like single-occupancy patient suites and strategically located operating rooms, helped reduce infection rates and contributed to enhanced surgical outcomes.

Rural hospital administrators frequently cite as barriers to facility replacement new relocation regulations promulgated by the Centers for Medicare and Medicaid Services (CMS); due to timing the plans of only one hospital responding to the survey were subject to the tightened rules. Each of the hospitals that launched replacement projects prior to the CMS rules believed their new locations would have met these regulatory requirements.

Interviews provided insight into the direct and indirect positive impact of hospital replacement on communities. Administrators also shared their approaches to raising capital and to facilities design. CAH leaders may draw invaluable lessons from these experiences as they consider their own facility capital investments.

STROUDWATERASSOCIATES and RED CAPITAL GROUP encourage leaders to develop plans that rely on strong data, reflect their communities' potential growth, and make the largest possible contribution to community development and better public health. ■