

## REPURPOSING

# What To Do if You've Built Beds and They Don't Come

The old model of “build and fill” is steadily being replaced by “patient-centered care.”

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Within healthcare, a dramatic shift is playing out across the country: Hospital beds are in less demand. New care models, changing demographics, and technological disruptions are shifting utilization patterns and altering traditional ways of doing business. The distinction between the acute inpatient and outpatient designations is blurring, perhaps on its way to becoming obsolete. New metrics to measure cost per outcome are replacing bed days as a measure of success.

The challenge for hospitals is deciding what to do with the beds that are no longer needed. For many, the answer is repurposing the space.

### The Point of Repurposing

Value-based care and population health initiatives focus on cost savings and quality improvement. These models shift financial and clinical accountability to providers; they are designed to reward value rather than volume and offer incentives for keeping patients out of the hospital. As a result, demand for inpatient services will most likely continue to decrease in favor of lower-cost settings such as skilled nursing facilities, outpatient treatment, and home-based care—a move increasingly aligned with patient preferences.

Underutilized assets tend to result in poor margins and increased cost per patient. As the financing model of healthcare changes, so, too, must the asset utilization model. Financially, hospitals need to shift their focus away from utilization

### Old model vs. New Model of Space Planning

Today, hospitals have 1,000,000 beds<sup>1</sup> with an average daily occupancy rate of 70 percent<sup>2</sup>—a rate that has declined nearly 39% since the 1980s.<sup>3</sup> Inpatient utilization also declined by 16.1 percent from 1999 to 2012,<sup>4</sup> partly due to a growing push by payers for more cost-efficient care.

#### Past: “Build and Fill” (Resources driving patients)



#### New: Patient need driving resources



Source: Deloitte Center for Health Solutions

and toward cost optimization, assessing and comparing the cost and revenue associated with current usage and with potential solutions. Any solution should

seek to maximize outcomes for patients, reduce total cost per outcome, and provide a return on assets for the hospital.

We believe that a number of options exist in the repurposing arena. These include transitioning the space formerly used for beds to services that are more in demand, e.g., freestanding ERs, outpatient clinics, post-acute care, or observation. Such options often have another advantage, in that they make it possible for hospitals to monetize leased space by either sub-leasing or selling.

Transitioning space to outpatient facilities that are focused on preventive and low-cost services may offer the highest returns in terms of outcomes and financial rewards. Models for this change in use of space should focus on areas that improve the outcome-to-cost ratio (i.e., the total cost to create incremental clinical improvements), which becomes more important as hospitals take on more financial risk. Increasingly, this means concentrating resources on traditionally high-cost chronic disease populations, such as those that are obese or have diabetes.

The financial incentives inherent in value-based care can also help create a more holistic and integrated view of patient outcomes, which we know is associated with a higher quality of care—a good thing as more patients have more of a say in their choice of hospitals, physicians, and insurance. Patient satisfaction will likely continue to play a major part in the competitive landscape of hospitals and may differentiate hospitals on elective services. This should be taken into account when repurposing space.

### Early Successes

While the trend toward repurposing is still emerging, organizations can learn from early adopters of this approach.

*Houston Methodist St Catherine Hospital* in Katy, Texas was repurposed to a long-term acute care hospital in 2014 after transfer of majority ownership of the hospital from Christus Health to Houston Methodist, thus complementing acute care services that already existed in the community. Long-term acute care hospital services can be an option for a health system with multiple hospital locations in a region and under-utilized beds. The post-acute facility can serve as a referral destination for complex acute care patients in a health system, and enable the system to offer a full continuum of care.<sup>5</sup>



### Why negative growth happens

Markets where hospitals may need to reduce the number of acute care beds generally share these characteristics:

- **Population shifts:** declining or slower growth rates
- **Over-bedding:** too many beds for the local population
- **Freestanding medical facilities:** a high prevalence of freestanding ambulatory treatment and surgical centers
- **Payment innovation:** adoption of payment models rewarding the reduction of expensive or unnecessary care

*Quincy Medical Center* in Quincy, Massachusetts was closed by its owner, Steward Health, at the end of 2014 with the space repurposed into an outpatient urgent-care center and a freestanding emergency department. Previously, the hospital had an average of only 20% of its beds occupied daily. In light of a saturated market for beds because of several other hospitals nearby, Steward intends the new services to better meet the needs of the community.<sup>6</sup>

*Lakewood Hospital* in Lakewood, Ohio announced plans in January 2015 to close its inpatient beds and convert the space into an outpatient campus due to declining inpatient volumes and the trend toward more ambulatory care services. The Cleveland Clinic, which manages the hospital, intends to repurpose the space into a family health center and freestanding emergency department.<sup>7</sup>

### How to Proceed

As payment systems come to reward quality outcomes and penalize unnecessary utilization, acute care bed demand will likely continue to decrease. Hospitals in service areas where this trend is taking place should consider repurposing space. The first step is to assess market, competitor, and demand trends in the local service area, followed by scenario-based planning using patient volumes, profitability, and cost-driver differences to weigh several options. Optimizing the outcomes-to-cost ratio should be the goal of this planning effort.

For business development, strategy, and executive officers of healthcare systems,

the time has come to shift the focus from filling beds to maximizing assets and space utilization.

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