Deciding whether to renovate an existing facility or to build a replacement is a challenging, but not impossible decision for community hospitals to make. As the health-care industry becomes more and more complex, strategic planning is the hallmark of strong organizations contemplating whether to renovate or replace their facilities.

**Make Strategic Planning a Priority**

In today’s competitive health-care environment, organizations must educate and engage their stakeholders—boards, physicians, leadership, staff, volunteers and the community. A hospital’s strategic plan, consisting of both short- and long-range versions, should do just that by establishing several strategies that focus resources to better achieve goals that support the organization’s mission and vision. Once completed, the strategic plan will need to be reviewed, updated and reported to the board of trustees every quarter.

Important participants in the strategic planning process include board members, leadership, medical staff, and often times, community leaders. These individuals, each representing their particular stakeholder viewpoint, are guided through the process by an experienced strategic planning professional, who will encourage participants to leave their baggage at the door.

What are the key steps necessary in the planning process to decide between a renovation or replacement project? How and when does funding a capital project come into play?

More often than not, a hospital’s strategic plan deals with the need to address the facility. While characteristic of the strategic planning process in general, the following is applied when making the decision to renovate or replace.

First, leadership must conduct and communicate to the group a strategic assessment outlining national and local drivers of change and assumptions about the future. Areas of research may include:

- Payer environment
- Physician recruitment
- Aging population and the corollary demand for increased services through the continuum of care
- Demand for data transparency and public reporting
- Justification of not-for-profit status through quantifiable community benefits
- Need for capital investments and new technology

Next, leadership must communicate to the group primary and secondary inpatient and outpatient market-share trends compared to prior years in each service line. Participants will consider a summary of the financial position of the organization highlighting key financial indicators with comparisons to previous years.

Now that the group has a foundation to build upon, it then identifies the organization’s strengths, weaknesses, opportunities and threats (SWOT). This process clarifies leadership’s understanding of potential areas of focus for strategy development and is likely the time to introduce facility renovation or replacement.

Once the SWOT analysis is compiled, the next step is a visioning exercise in which participants are asked to describe the characteristics of an ideal organization if no limitations, such as capital or workforce shortages, existed. A new replacement hospital or renovation project, perhaps with an attached medical office building, to increase workflow efficiency or expand services may be the natural outcome of this exercise.

Following review of all of the information, participants create a prioritized list with measurable objectives or desired improvements for the future. Often, they identify infrastructure or facility improvements as the number-one priority.

The final step in the planning process is to use the information from the planning meeting as the basis for the strategic plan. Ideas must be organized into statements, such as, “Determine renovation or replacement strategy by commissioning a study to do so by May 30.”
The A Team
Once the strategic plan is in place, provided that a consensus has been reached for addressing the infrastructure needs with either replacement or renovation, the chief executive officer (CEO), who leads the facility strategy, must put together a facilities committee, which typically consists of the CEO, chief financial officer, facilities director, director of nursing, and often the organization’s accounting team. The team then selects a project consultant or owner’s representative, an investment banker, architect and construction manager to help develop the project.

The first task is to determine how much the hospital can afford. The core team then puts together a funding plan that examines the financing options that are available at the lowest cost of capital available. It then meets weekly to work its way through all phases of the project (design, audit, fund raising, financing, construction management) and regularly keeps the board, medical staff and key stakeholders informed as the project is developed.

All work must begin with and circle back to the strategic plan. This process is a way to obtain buy-in at the board, medical staff and leadership level from the very beginning. In addition, the key to the overall success of the project over the long term is identifying strategies, including funding options and the need for a capital campaign, prior to making the critical decision of renovating or replacing an existing facility.

Renovate Versus Replace
The facilities committee, project consultant or owner’s representative will direct stakeholders through the next phase of the decision-making process. This includes: a facility assessment, options, cost estimates, alternatives and recommendations.

Due diligence must be performed and all three options examined and outlined to the board for decision making. Engage professionals in master facility planning and investment banking to assist with the process of comparing cost, quality and risk as well as the advantages and limitations of each option. The choices are:

1. **Do Nothing:** This option comes into play when there are critical financial, organizational or physician-related issues that need to be addressed first before taking on a construction project. The hospital may need to develop debt capacity or it may need to engage staff in improving the culture of quality or there aren’t enough physicians to handle an expansion, for example.

   However, while doing nothing may seem like a prudent choice for community hospitals, it may have consequences. If the hospitals in the surrounding markets have replaced or renovated, the “Do Nothing” decision may cause a loss in market share as consumers’ expectations have changed—their perception of quality is a newly updated facility. In addition, it is difficult to recruit and retain physicians. Physicians will gravitate toward newly renovated or new hospitals with the most up-to-date technology and integrated health information technology.

2. **Renovation:** Renovation can be a cost-effective and appeasing option, but it also is the most complicated one. It should take into account the following precautions:
   - Plan to minimize interruptions of day-to-day operations.
   - Train staff and contractors to prevent the spread of infections during construction.
   - Work flow processes are redeveloped to eliminate inefficiencies.
   - Plan all phases to avoid issues with space utilization over the long term.
   - Take into account that the site needs to allow for future expansion.
   - Include projected operating costs associated with maintaining multiple systems, such as HVAC.

   Be aware that the cost to renovate could compare to that of building a replacement facility, if the renovation includes significant new square footage.

3. **Replacement:** If feasible, a replacement option is ideal for many community hospitals. Operational efficiency can be created: by designing a facility affording a shared-staffing model with streamlined clinical processes; installing updated heating, cooling and plumbing systems that are energy efficient; planning for growth and expansion of services; adapting to changing technology with the space design; and having little to no disruption in day-to-day operations. With a new facility the organization can move from a white, cold, institution-like facility with shared hospital rooms, showers and bathrooms to a healing environment with warm colors and natural lighting, private rooms, showers and bathrooms.

For most community hospitals, undergoing a major capital project that will expend significant debt and equity resources is a daunting prospect. However, aging facilities can frequently constrict the ability of hospitals to reach their strategic goals. So, with proper planning and stakeholder buy-in, community hospitals can ensure that the decision to renovate or replace will be made strategically for the hospital’s future growth and sustainability.

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